648, 665, 642, 433 Hungary EC1

[For the economic and political position of Hungary under Soviet control, see 85: Zinner, R1 Soviet Union, Category 116, Pp. 157B-163B.]

511 villages are yet properly supplied. The shortage of food, of course, is more acutely in the cities. Moreover, the purchasing power of the salaries--and practically everyone in a Communist society is a salaried worker--is definitely low.

[465] The average MONTHLY income of an independent farmer owning 5-10 acres of land was between 400-500 forints in 1954. At the same time, kolkhoz officials and agronomists were making around 1,000 forints.

435 511 Below are listed some of the 1954 prices in various Magyar villages which will perhaps give some indication of how far the average wages could go:

	forints
Rice (1 kg.)	26.00
Sugar (1 kg.)	10.60
Smoked lard (1 kg.)	47.00
Sausage (1 kg.)	50.00
Man's suit (cheapest)	600.00
Man's shirt (cheapest)	80.00
Man's shoes (one pair)	300.00

511 433 Manufactured goods during this time were not only expensive but scarce. For instance, 30,000 plows were needed in the villages in 1954 in order to replace the old ones, but, according to government sources, only 2,000 reached the village stores. The same situation

exists with other small agricultural implements and tools as well as with household goods, such as radios. Furthermore, the quality of industrial products distributed in the small towns is well known to be ~~as~~ the worst [redacted]. The distribution of goods is poorly organized; independently operating local merchants have been forced out of business, their shops confiscated and either closed or reopened as State-owned stores with the former owner serving in the capacity of clerk.

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As has been mentioned in Subparagraph 4[1] there is practically no plumbing system in the villages of Hungary and the absence of sewer systems adds to the pollution of shallow wells and, in turn, to the overall unsanitary conditions in the villages.

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The recent electrification of the country has been intended primarily for heavy industry and not for the individual consumer. High tension power lines were built from 1950 to 1953 between the following cities, mostly industrial centers:

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Diósgyör	--	Ozd
Szolnok	--	Szeged
Inota	--	Tárnok
Tárnok	--	Albertfalva
Mátra	--	Nagybátony
Debrecen	--	Téglás

1 [Sec cat. 116, pp. 148-149 -- Analyst]

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

CHAPTER I

ECONOMIC AND SOCIAL BACKGROUND

THE purpose of this work is to describe and analyse the meaning of economic planning in Hungary in the years 1947–9 as a typical instance of planning under conditions then prevailing in Eastern Europe. These conditions differ distinctly from those in Soviet Russia on the one hand and from those of planning as understood in Western Europe on the other. That nationalization of industries had been carried out somewhat further in Hungary than in England or France was not the essential difference, but when the Plan came to be adopted in Hungary, it was based on direct coercive powers, such as the Western countries would not resort to for such a purpose. When planning was started in Hungary, the nationalized section consisted of mining, heavy industry, power production, and big banking. To these might be added transport and public utilities, which already before the war had been run by Government agencies or local authorities. Within eight months of the Plan starting, almost the whole of manufacturing industry and the entire wholesale trade were incorporated into public ownership. Even in these later stages of nationalization private enterprise remained important. Besides handicrafts and retail trade, it included agriculture; farm production was carried on in individually-owned peasant holdings numbering some 2 million. Thus the administrative task of the planning authorities was twofold. They had to exercise a direct control in the nationalized sphere and at the same time to regulate private enterprise by elaborate indirect methods of control.

The economy which had to be moulded by the Hungarian Three-year Plan had not only been worn down by German military exploitation, by direct war damage, and by dismantling, but even before the war had been of limited efficiency. In productivity of labour and national income, Hungary, while ranking far behind the nations of Western Europe, made a relatively favourable comparison with the peoples of South-eastern Europe. For 1938 income per head in U.S. dollars was estimated in Hungary at $112, in comparison with $378 in the United Kingdom, $337 in Germany, $236 in France, and $176 in Czechoslovakia, and against $104 in Poland and only $68 in Bulgaria.[1]

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948* (Geneva, 1949), p. 235.

3-Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

● 433 with the disruption of transport and the breakdown of the whole fabric of public administration.

Official figures compare industrial activity before and after the war as follows:

	1945	*1938*
Total number of factories*	4,341	3,990
out of which		
working with over 70 per cent capacity	186	1,229
working at 31–70 per cent capacity	1,062	1,916
working under 30 per cent capacity	1,984	486
completely out of work	1,109	89

* Plants employing more than twenty workers when in full swing.

A further factor gravely impairing output was the lack of labour discipline, while food conditions were so miserable in the first post-war year as to make the labourers physically unable to perform regular work.

[316] In 1945 coal output, with about the same personnel in the mines as in 1938, fell to roughly a half of the pre-war achievement. In that year aggregate man-hours in manufactures were roughly 50 per cent of the pre-war level.[1]

[241] In agriculture the bread-grain crop of 1945 was approxi-
[231] mately a third of a normal harvest. In livestock heavy war damage had been suffered, though official statements, according to which over 40 per cent of cattle and 60 per cent of the pig population had been lost, were thought by some experts to be rather exaggerated. Recovery in agriculture was necessarily slow, and adverse conditions for cultivation (lack of draught animals and of tractors, as well as of fertilizers), coupled with a sequence of droughts, played havoc with successive crops.

In industry the process of restoration started as soon as wholesale dismantling had ceased. Industrialists took advantage of credits in a rapidly depreciating currency to rebuild and, if possible, to modernize their plants. As to the efficiency of labour, the financial reorganization, which put an end to a galloping inflation in August 1946, provided a basis for the gradual raising of industrial output per head.

[1] The following figures cast some light on the development and the structure of manufacturing industry:

	Power equipment in 1,000 H.P.			Number of workers employed (yearly averages)	
	1938	*1943*	*1945*	*1938*	*1945*
Total	1,552	1,965	1,746*	288,000	179,000
Iron, metal, and engineering	293			91,000	71,000
Power generating	727			7,000	8,000
Textile	98			64,000	28,000
Food	223			34,000	24,000
Chemical	71			16,000	13,000

* Approximate figure.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

In order to improve industrial production, the problem of foreign trade had to be tackled. Dislocation brought about by the war led to a complete breakdown of international trade. In 1946 the volume of imports as well as of exports amounted to about one-sixth of the pre-war level.

The efforts in securing raw materials scored some success. In 1947 imports were raised to about half of the pre-war volume, yet exports did not exceed one-quarter. There were remarkable shifts in the composition of foreign trade, reflecting the changed conditions. Imports appear to have been restricted to raw materials and industrial equipment, while manufactured goods figured as the main items of exports in consequence of the shortage in all kinds of farm products.

Two major factors (war losses and drought) affecting agricultural production have been mentioned. There was a third one, a direct consequence of the political landslide: the breaking up of the big estates and of the big holdings of which they mostly consisted. In their place several hundred thousand of new peasant holdings emerged.[1] This radical change, brought about by the land reform of 1945, inevitably caused a lessening of the marketable portion of farm produce. The land reform was bound to alter the old pattern of agricultural production. In its wake the preponderance of grain growing was expected to give way to a more diversified cultivation. Corresponding with these changes in the composition of production, the exportable surplus of cereals was destined to cease and was to be replaced by the products of more labour-intensive peasant farming. But the process of recovery in farming being necessarily slow, agriculture was overtaken by the extension of industrial production even before the Plan was started. Consequently farming lost its previous importance as a main source of exports.

Post-war reconstruction was to be achieved under unprecedented conditions. After the collapse of the Fascist regime, public services had to be rebuilt and work discipline restored under Russian occupation in a radically changed social atmosphere. Economic policy was bound to reckon with new developments in agriculture and industry as well as with the necessity of a reorientation of foreign trade. Last but not least there was the urgent task of halting inflation, as financial disorder attained proportions which endangered the entire social and economic fabric.

[1] This involved also the splitting up of production units, the large estates having been run mostly as large-scale farms and only exceptionally in the form of small tenancies.

3:Kemeny G-5 (1945-48)195 A EC1 Hungary EC1

433 Political tensions were growing as the economic year 1946–7 drew to a close. Still they did not interrupt the upward trend of production supported by the forces of a system of mixed economy. General economic development was encouraged by the monetary reform, the reconstruction of transport, a gradually increasing foreign trade, and improving labour productivity.

These then were the foundations on which economic planning had to build.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

Cheap labour and scarce capital supplies directed industrialization towards the expansion of textile and other light industries. On the whole this line, typical for the industrialization of countries with the economic structure of Hungary, was followed during the inter-war period.

However, outside the general trend in the inter-war period there were some disturbing factors. The drive for industrialization gained a further impetus through the deterioration of the terms of trade as a result of increasing difficulties in disposing of the agricultural surplus at prices covering cost. This was due to the adverse tendency of the world market, but was aggravated by the protective measures taken by Germany, and other important consumers of Hungarian farm products, in their endeavours to approach self-sufficiency. In this atmosphere of economic nationalism the governing consideration in deciding on industrial investment projects was whether the requirements of the domestic market were or were not met by home supplies of the products concerned. The idea of 'improving' the trade balance by reducing imports of manufactured goods was gaining favour, and due consideration was not given to the broader aspects of international trade and to possibly more economic uses of resources.

A similar spirit has apparently become the guiding principle of the planners who are for the time being responsible for industrialization in South-eastern Europe. They are likely to be even more devoted to an economic philosophy inspired by nationalism than those who directed economic policy under capitalism. The present champions of industrial development blame their capitalist predecessors for having omitted to build up an adequate machine-tool and engineering industry. Preference for light industry had, it is contended, sacrificed the independence of the Hungarian economy in serving Western capitalist interests. The outstanding feature of economic policy, as professed at present, is the drive for an all-round industrial development with emphasis on heavy industry.

Thus the claim for autarky is being put forward more strongly than ever before. The insistence with which the case of heavy industry is advocated justifies the suspicion that it is supported by considerations other than purely economic. In the eyes of Communist politicians independence of the West in sectors of

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B.T.U. Only a small part of this portion of coal production was low-grade lignite (3,500–4,500 B.T.U.) used locally, and, on an increasing scale, to produce thermal electric power. Brown coal of average quality was generally used as fuel for manufacturing industry, railways, and agriculture. As shown by experience during the war, production could be considerably raised above the 1938 level.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

433 production important for defence may outweigh economic advantages. At the same time the division of Europe obstructs a large-scale supply of capital goods from Western countries, so that an extension of the heavy industries appears necessary for carrying out economic plans, even apart from considerations of defence.

Still the question remains unanswered why industrialization is being pushed along strictly national lines even within the Russian sphere of influence. The Hungarian Three-year Plan [439] is essentially a national Plan. Between the planned economy of Hungary and that of the other countries within the Russian orbit links were established by bilateral trade pacts and not by co-ordinated planning on a regional scale. Nevertheless, the impact of the trade agreements on the economies concerned should not be underestimated. One main argument put forward for extending the heavy industries in Hungary was that the Soviet Union would be prepared to take a considerable part of the output. Thus Russia's shortage in these products was the criterion for the degree of expansion. The question was hardly raised whether large investments for extending heavy industry represented the best utilization of resources. The advantages of an economic division of labour to the welfare and defence of Hungary, as in the other satellite countries, were subordinated to the short-term interests of the Soviet Union.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

comparable to felony under English law. Even in a case of mere negligence an offender became liable to imprisonment up to three years. In all other cases the penalty may be penal servitude up to five years and, in aggravated cases, up to ten years. Even a death penalty may be inflicted when damage is done to important plant so serious as to interrupt production.

The decree clearly aims at investing the National Planning Department with an almost absolute discretion to prosecute for economic sabotage. Thus methods of terror were introduced to enforce the Plan. It is open to doubt whether in the long run these methods were conducive to economic efficiency, in particular, in regard to the quality of work done.

THE PRELIMINARY PROGRAMME

In reviewing the initial difficulties of the working of the Three-year Plan, it should be pointed out that they did not constitute arguments against planning in general, since they were rooted in specific Hungarian conditions. At the outset one of the main obstacles to elaborate planning was the gap in statistics on production. Later on it necessitated modifying the Plan. This insufficient information on fundamental facts, and perhaps still more the deficiencies in organization, were connected with the hasty way in which the transition to a system of planned economy was staged. The National Planning Department opened its activities on 1 August, the very same day that the Plan was officially put in force. Before that date preparatory work had devolved on different departments lacking effective co-ordination.

None the less, as required by law, the National Planning Department published a Three-year Plan on 1 August 1947 in the *Official Gazette*. It included a yearly production programme for industry and agriculture, as well as a national capital programme comprising investment in agriculture, mining, industry, communications, and buildings. The Plan proclaimed that, supported by the creation of an enlarged technical equipment and by a 50 per cent increase in the productivity of labour, industrial output in the third Plan year should amount roughly to double that of 1946–7, while farm production was to be raised by about 60 per cent.

The programme of output was mostly based on a broad classification of commodities; only sixty-nine types of commodities were enumerated. When the time came to give directions to individual enterprises, the National Planning Department felt the need of further details and expanded its list to include

1 [issued under the Act of 1947 for a three-year plan.—Analyst]

3:Kemeny G-5 (1945-48)1951 EC1 Hungary EC1

250 types of commodities.[1] The lack of detailed planning is borne out by the statement of the official *Statistical Review*, according to which 62 per cent of the production of manufacturing industries was at the outset estimated in quantities, the rest in approximate values only. The percentage of estimates in quantities was as low as 32 per cent for chemicals and 40 per cent for engineering products. At its inception therefore the Plan represented, particularly in the case of consumer-goods industries, not much more than a project for extending production.

The prospects of selling the increased output were not a matter of concern for the planners. The start was made in an economy of shortage. The supply of consumer goods was at the outset far below pre-war level, and output was still limited by the availability of raw materials. Thus adequacy of demand was an issue which did not arise. In view of the prevailing conditions, it is hardly an overstatement to say that any useful article produced could be sold at a remunerative price. So there was plenty of scope for the extension of consumer-goods industries without risking difficulties of selling. No doubt a limit would eventually be reached beyond which extensions of capacity of the consumer-goods industries would raise the issue of marketing. However, the structure of the Plan itself allowed the planners a breathing space. It was not likely that general difficulties of selling consumer goods or a congestion in the products of any important manufacturing branch as a whole would arise, so long as the Plan was requiring a high rate of capital accumulation, and the extensions of capacity were mainly in the capital-goods industries. Whenever some difficulties in selling within a limited section of the market for consumer goods arose, the maladjustment could, in view of a sellers' market, be dealt with without great difficulty, usually by shifting production from one article to another within the same branch of industry. It was the responsibility of the Planning Department, in co-operation with the financial authorities, to deal with disturbances of that kind.

The conception of the planners was to raise real income step by step in accordance with the increase of supplies of food and of manufactured consumer goods. They hoped that price and wage control (existing before the Plan came into operation) could be made instrumental in attaining that end. The extent to which the handling of these controls proved successful is a separate question.[2]

The programme contemplated an increase in production more than proportional to the anticipated increase in man-

[1] The directive issued late in 1949 concerning the execution of the Five-year Plan comprised 1,500 types.

[2] On shortcomings see below pp. 50–1.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

power: production was to be doubled, whereas man-power was to increase by only 30 per cent. That presupposed an improvement of fully 50 per cent in productivity per head.

The Plan at its inception did not prescribe any specific measures for improving productivity, but it was assumed that a steadier flow of raw materials, the improvement of equipment, together with further progress in the extension of piece-work, would have the desired effect. When the Plan was half-way through, a drive for further productivity was resorted to, but with indifferent success (see pp. 87–96).

PLANNING INDUSTRIAL PRODUCTION

During the first months of the Plan period the central organ for planning was preoccupied with planning its own organization. According to a decree issued early in September 1947 a representative of the Planning Department was to be installed in each plant (above a certain size), and in each institution or office of importance. The setting up of a network of representatives dragged on for months, and meanwhile a lack of co-ordination in the activities of the different agencies prevailed. However, by the end of the first Plan year the number of Plan controllers attained some 3,000. Their duty was to supervise industrial and agricultural production.

The methods of putting the Plan into force in the nationalized concerns were different from those applied to the privately-owned enterprises. Heavy industry presents an example of the procedure in the former.

As from the end of 1946, iron and steel production, and also about 70 per cent of the heavy machine industry including electrical engineering, were brought under a central management. The new formation under direct Government control united three former private concerns and the previously State-owned Iron and Engineering Works. As soon as the introduction of planned economy had been decided, the management were told to prepare a plan covering their field of activity. It was understood from the outset that this draft plan should secure full utilization of the capital equipment, and in certain sections of production an extension of capacity. Directions as to which parts should receive this extension were at first uncertain. At a later stage of the preparatory work it was determined that the provision of additional capacity for the production of Diesel motors, and for the equipment of power stations and long-distance power lines,[1] should take first place.

[1] The expansion of capacity for electrical engineering was in accordance with the intention to develop a new network of power stations.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

433 471 For the plan to be submitted to the authorities the order books were used as a basis. At that time existing orders represented about eight months' output. These orders, in so far as they were from the Government, had already been placed with a view to the needs of reconstruction and the purposes of the plan. It was assumed that for the remaining four months' period sufficient further orders would flow in to keep the industry fully employed. In this way a production programme for a whole year was drawn up, naturally taking account of requirements for plant expansion within the concern. For the following two years no detailed plans were demanded, only suggestions on broad outlines.

[185] The changes made in the draft plan, before it was incorporated into the general plan, were inconsiderable except for one point. The amount of investment proposed in heavy industry was curtailed, without changing estimates of production, on the assumption that existing plants could be more intensely exploited than the management had calculated on.

In the planning of the output of capital goods there were remarkable gaps. The programme for the equipment of the publicly-owned industries, which was drawn up in detail, was important, comprising as it did mining, iron and steel works, the greatest part of heavy industry, railways, and other communications. But the requirements of private enterprise, except those already on the order books, were not elaborated. The figures set out for investment in the different branches of light industry were not substantiated by specification of the types of equipment needed by individual enterprises, so that, at least up to mid-1948, a certain part of heavy-industry production was not really planned. The section of its capacity engaged in production of equipment for light industries worked on the basis of orders received, which usually resulted from special urgency or from pressure exerted by authorities particularly interested in the development of the plant concerned.

Under the circumstances prevailing no system of economy, whether centrally planned or not, could avoid at least so much planning as was required to set up a scale of priorities according to the urgency of needs for reconstruction and for other purposes.

In the case of heavy industry the main task of the planners evidently consisted in co-ordinating work on orders from the Government. There was quite a number of first priorities: reparations, reconstruction of railways and bridges, re-equipping of mining and heavy industry run by the Government. The point at which economic planning came in was in deciding

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

whether and to what extent an extension of heavy industry beyond that required for covering the urgent needs of reconstruction and re-equipment should be initiated.

As shown by numerous complaints, planning failed to synchronize the manufacturing of producers' goods with investment. To secure deliveries in due time and of the quality required, the Ministry of Industry prescribed a formula for contracts, stipulating penalties for delays or other failures in deliveries. The significance of this measure faded as soon as any delay could be qualified as sabotage of the Plan under the decree issued in November 1947.

Of the application of the Plan to private enterprise, the methods employed in the rubber industry may be taken as more or less typical. Preparatory work was done by the competent section of the Ministry of Industry in collaboration with a few selected executives and the workers' representatives of the enterprises concerned. Estimates of production were mostly drawn up for classes of commodities, not for specified articles. The representatives of private enterprise were unwilling to give estimates in detail or to commit themselves accordingly, for they hoped to retain freedom to change from one product to another whenever difficulties of production or of sale called for a switch-over. They also endeavoured to keep estimates of output as low as possible so as to forestall troubles which might arise if they failed to reach the quota. By this method of budgeting the road was cleared for surpassing the production programme set up by the Plan.

Thus the production schedule for light industry did not present a cut and dried programme by which the executives of the enterprises could be guided and which they were bound to observe. This vagueness, which was to a certain extent deliberate, secured a considerable degree of flexibility, a quality not altogether disadvantageous for a general economic plan.

Within the group of consumer-goods industries, textiles held a special position in the application of the Plan. The different sections of this industry had for many years been united in an association with a carefully developed statistical service on technical equipment, labour, raw-material requirements, and production. During the war raw-material allocations were administered through this association, which possessed a ready scheme for distribution according to capacities. The industry had, in fact, been under a system of sectional planning. The authorities naturally made use of this instrument. With its aid a plan for the textile industries was drawn up centrally. This plan, more elaborate than in other branches of light industry,

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

433 presented in its subdivisions a production programme for each
471 of the factories.

For industries generally, light and heavy, the authorities expected the quotas of production to provide for an output exceeding that of 1946–7, and producers being aware of this would take care not to make their estimates unduly low. Yet no definite directions were given in advance to what extent production should be raised. The issue was thrashed out in discussions between representatives of the different industries and the Government experts. In the course of these discussions stocks as well as prospective supplies of raw materials and other factors bearing on production were investigated. Suggestions made by industrial experts formed the basis of deliberations, and were examined and possibly revised by Government experts and labour delegates. It was in co-operation with the industrial experts, labour representatives, and authorities at this preparatory stage that the plans of the concerns and simultaneously the plans for whole branches of industry emerged. Experts of the different concerns within the same branch of industry were in contact before submitting their propositions. As the ensuing discussions with the authorities were mostly conducted in the presence of representatives of the entire branch, the distribution of work among the different concerns was also decided.

In the course of the preparatory work production quotas involving additional capital equipment were scrutinized with special care in an endeavour to fit in requirements with the production of capital goods. Attention was also given to the repercussions of changes of production in dependent industries and to the co-ordination of raw-material supplies and production plans. But the fact that the time allowed for the preparation of the Plan was short left its mark in several respects. For lack of time the estimates of raw-material supplies, in particular of those to be imported, were in many cases arbitrary, and the plans for co-ordination of the activities of the different industries were sketchy and incomplete.

185 The Plan as we have seen was drawn up on the assumption of a considerable increase in the efficiency of labour. It was, in fact, a feature of the Plan that output should expand on a much larger scale than the number of hands employed in industry. This cost-diminishing factor had to be considered when setting up the specific plans of individual concerns if they were to fit into the general Plan. On the other hand, while an improvement of the standard of living by levelling up wages was envisaged, wage increases were to be admitted only when output per head increased. The reduction of cost was, in principle at

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

least, anticipated within the individual production and investment plans. No details were disclosed to show to what extent these tentative estimates approached reality within the various industrial branches.

The Plan published on the authority of the National Planning Department—as provided in the fundamental law on the Three-year Plan—was on its industrial side the outcome of this preparatory work. So far as the big public enterprises in mining and heavy industry were concerned, their executives were, in fact, confronted with their own sectional plans. They received a programme of production with a classification familiar to them. As for the expansion of their output, the public concerns could rely on special consideration for their raw-material needs. These materials were provided increasingly by Russia and Poland even prior to the Plan.

Light industries retained some discretion in their production in virtue of the vagueness of the schemes presented to them. It was understood, however, that the production of necessities should have priority. And special directives were given to use a definite quota of the available material for the production of articles of a certain description in the textile and the leather industries. These directives eventually crystallized in rulings on the output of utility clothes and footwear.

There was a general tendency to turn out standardized articles, and if possible of maximum tonnage or other quantitative units. In this respect there was no difference between the position of the executive of a public enterprise and the private entrepreneur. Both were under pressure to realize and if possible to surpass their quotas.

THE MECHANISM FOR ADJUSTMENT

By the decree of August 1947 the obligation was imposed on all enterprises employing more than twenty workers to submit through the competent Ministry specific plans to the National Planning Department. For the fulfilment of it, the ground had been prepared through the consultations between industry and the authorities which have been described above. The plans had to include the following: (1) the plant capacity; (2) the amount of production in 1946–7; (2) planned production specified according to the types of commodities as listed in the directives of the Planning Department; (4) planned investment. The quantity of raw materials, man-power, and equipment needed for the production and investment proposed had to be indicated.

But that was not the whole story. As from the second half

very practical significance, in that once approved they became obligatory. Any departure from them, whether in production or in capital outlay, exposed the executives to the danger of being accused of sabotage.

No modified version of the Plan, compiled from the individual quotas submitted, was published. Two series of figures were disclosed: the preliminary forecast, and the achievements in the first Plan year. In the following table actual production is not compared with totals built up from the quotas of the individual enterprises, but with the preliminary programme promulgated on 1 August 1947.

	Preliminary Forecast	*Actual 1947–8*	*Percentage fulfilment*
Iron ore, 1,000 tons	210	258	123
Bauxite, 1,000 tons	220	400	182
Electrical engineering, value million forint	335	562	168
Bricks, million pieces	250	205	82
Leather, million forint	232	364	156
Footwear	—	—	123
Knitted wear, 1,000 kg.	3,480	1,750	50
Flour	—	—	62
Rubber goods, value million forint	80	230	288

As illustrated by the wide range of variation in the rates of fulfilment, the Plan was fluid. The forecast published in August 1947 was but a starting point. Numerous factors inducing considerable alterations were at work. When the Plan was put into operation and production in accordance with the quotas was entered upon, substantial departures from the forecast took place, and in many cases the quotas were exceeded. The increase in the output of iron ore was due to a quicker rise in labour productivity than had been expected. Ample ore supplies were reflected in the output of rolled material, entailing a revision of the programme for heavy machine industry. In the case of bauxite the possibilities of sale were, as stated officially, under-estimated. Even the steep increase in output remained within the available capacity. The level of production in electrical engineering was revised in order to raise exports. The markedly higher achievement was obtained by the introduction of a second shift, in some instances even of a third. In contrast to these extensions, brick production was less than planned. The building-material industry was to a considerable extent disorganized. Prior to the Plan its coal supplies were deficient. Deliveries of fuel became more regular under the Plan, but productivity of labour continued to be extremely low.

Developments in consumer-goods industries were highly uneven. The huge excess in rubber-goods output over the quantity planned can be explained mainly by the under-estimation of

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

raw-material imports. Moreover, the production of the rubber industry received a stimulus from orders for tyres of standard type to be delivered to the Soviet military authorities. Supplies of home-made leather were larger than had been provided for, while imports were deficient. This shift involved on balance a heavy inroad on the raw-material stocks. Production of knitted wear was curtailed as an unusually mild winter caused a setback in demand. Low fulfilment in flour milling was the consequence of scanty raw-material supplies caused by poor crops.

Cases like that of the knitted-goods industry naturally could be dealt with only in closest co-operation with the authorities. The approval of the Planning Department was needed for changing the production programme. A corresponding redistribution of raw materials followed. Price policy had to be revised in order to hasten the disposal of accumulated stocks. This implied a change of the financial plans of the enterprises concerned, requiring additional credits.[1]

Since individual enterprises were, in their production and investment, tied down to their plans as approved, any change needed previous official consent. Executives were anxious to obtain this consent whenever conditions called for an alteration of their plan. Applications for alterations were dealt with by the National Planning Department in co-operation with the competent Ministry. The fact that the Plan was published by the National Planning Department implied that the latter had the power to carry out modifications according to practical requirements. It was, in fact, a duty of the Planning Department, being the authority responsible for the working of the Plan, to provide for necessary revisions. If these involved additional capital outlay, the consent of the Supreme Economic Council had to be applied for.

Whenever proposals submitted for the alteration of individual plans aimed at widening the scope, they were, as far as possible, favoured. Suggestions for reduction were severely scrutinized, and had to be supported by cogent reasons. In outstanding cases, such as the speeding up of the development of power generating, the initiative lay with the National Planning Department.

The efforts of the Planning Department to co-ordinate economic activities were supported by the Inter-departmental Committee for Credit Allocation. This agency, whose competence covered the whole field of economy in so far as the supply of working capital was concerned, had already evolved certain methods of work and routine during the year preceding the

[1] This being a typical case referred to in a more general context on p. 28.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

AGRICULTURE

241 471 433 [435] In agriculture a system of planning was built up which was reminiscent up to a point of the form of agricultural planning in Great Britain or of the control and guidance of agriculture introduced in other countries of Western Europe. The common characteristic of these systems was production by private enterprise under central control, one of the main objectives of the direction being to ensure the delivery of certain quantities of food to the public authorities. Hungary, like the Western countries, relies within the pattern of control on price policy and on the granting of other advantages on certain products to induce the kinds of production desired. In the methods applied, however, the similarity was soon to cease. In contrast with the Western countries, the prices fixed in Hungary for deliveries were insufficient, as evidenced by black-market prices far exceeding the official ones. The inducement to evade the requirements of delivery was, therefore, strong. It was of vital importance for the Government to secure at least the moderate rations of food prescribed for the urban population. As from 1946 a machinery for collecting had been carefully developed, and later on flying squads were organized to apply harsh methods in repressing the peasants' attempts to slip through the meshes of the regulations requiring the delivery of grains, fat, and other produce. As a considerable part of the normal farm output had to be handed over for public supplies, an efficient working of the system would mean that the farmer was compelled to produce adequately if he was to have enough left for his private consumption.

It was not solely through the tightening of the collection system that the introduction of planning changed the position of the individual farmer. In order to secure the growing of certain products, direct compulsion was applied by decrees ordering in detail which part of the holdings should be devoted to the cultivation desirable. This compulsion was the very essence of the agricultural plan, which embraced the whole of the arable area. A plan was drawn up for production in stock-raising, too, listing the quantities of meat, milk, poultry, eggs, wool, etc. to be produced. These latter figures remained mere targets, but for crop growing the plan was, in one respect at least, realized. There were two sets of targets; the area to be sown with each product and the average yield. The latter represented guesswork more than anything else, though the estimates of yields lower than those of 1938–9 showed the intention of the planners to allow for underlying changes.[1]

[1] Average yields in 1938: wheat 9·6, rye 7·3, barley 9·2, oats 8·0, maize 13·1, potatoes 42·3, and sugar-beet 126·6 quintals per yoke.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

The plan was drawn up on the following lines:

	Estimates 1947–8			*Results 1947–8*		
	Area sown 1,000 yoke	*Average yield quintal/ yoke*	*Crops in 1,000 quint.*	*Area sown 1,000 yoke*	*Average yield quintal/ yoke*	*Crops* in 1,000 quint.*
Wheat	2,450	7·3	17,885	2,324	6·8	15,800
Rye	950	5·8	5,510	1,005	7·2	7,240
Barley	850	6·9	5,796	784	9·0	7,060
Oats	340	6·4	2,176	409	8·5	3,480
Maize	2,100	10·6	22,366	2,263	13·1	29,600
Potatoes	525	38·0	19,950	490	47·5	23,300
Sugar-beet	125	85·0	10,625	185	86·0	15,900

* Provisional data, no corrected figures were later given.

In determining the area to be sown with each product, the natural conditions of agriculture in Hungary had to be taken into account. Even within these limits modification of the pre-war sowing scheme was possible, and was, in fact, carried through in response to urgent needs (in particular by extending the area for oil seeds). The sowing plan for 1947–8 had to be revised, because in the autumn of 1947 the preparation of the soil was hampered by abnormal weather conditions. The gaps left by reduced autumnal sowing of bread-grains were mostly filled by planting maize in the following spring, as summer wheat and rye do not thrive in Hungary. But, apart from occurrences of this kind, the sowing plan was carried out. The mechanism of control proved fairly efficient.

The breakdown of agricultural output according to counties (numbering twenty-five) was drawn up by the Ministry of Agriculture. This plan, with its subdivisions, was based on previous experience. The starting point for determining the area for each crop was the average pre-war figure. This was cautiously modified with a view to changes in agricultural policy (change-over from grain-growing to more diversified production) and to immediate needs.

It was the task of the county committees, assisted by local government agricultural departments and representatives of the Planning Department, to elaborate, within the limits set for each county, sowing plans according to districts and localities. The responsibility for determining the part of the individual farmer rested with the local or village committees. These were destined at the same time to supervise the activities of the farmers in their successive stages. The omnipresent Communist Party, together with the organization of the 'National Union of Working Peasants', was called in to assist the village committees in fulfilling their task of control. These local committees supported the representatives of the Planning Department, who

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

185 433

inter-war period—and of reparation payments, the goal could be realized only if a level of production was attained surpassing the pre-war level; production in the third Plan year was to be almost double that of 1946–7. This bold programme for expansion was staged, notwithstanding that the absence of raw-material reserves made any adjustment in production difficult.

The Plan embodied an economic policy according to which by 1949–50 farm production would still be 5 per cent below the pre-war level, while output in mining and metallurgy would exceed that of 1938 by 34 per cent, and in manufacturing industry by 27 per cent. An increase of 64 per cent was provided for production in engineering.

PLAN ESTIMATES
(*at prices of January 1947*)

	1938	*1946–7*	*1947–8*	*1948–9*	*1949–50*
			In million forint		
National income	22,517	14,741	19,029	22,414	25,705
Public expenditure on goods	2,830	1,648	1,750	1,850	2,000
International commitments	—	1,397	1,199	1,470	1,684
Investment*	1,205	530	1,796	2,185	2,604
Increment of livestock	168	182	297	359	462
Value of goods available for home consumption	18,314	10,988	13,987	16,,50	18,945
			Per cent of 1938		
National income	100	65·5	84·5	99·5	114·2
Value of goods available for home consumption	100	60	76·4	90·4	104·3

* 1947–8 to 1949–50 Plan investment.

Within the estimates 6,585 million were provided to finance the three years' investment programme. It was anticipated to break up total investment as follows:

	Million forint	*Percentage of total investment*
Agriculture	2,000	30·5
Mining and manufactures	1,745	26·5
Communication	1,676	25·4
Buildings, social services	1,164	17·6
Total:	6,585	100·0

At first sight it is surprising that investments planned in agriculture exceeded those for mining and industry, though the Plan was generally regarded as a programme for industrialization. But, as the farmers were the largest group in the community, the planners intended that the amounts devoted to agriculture should appear impressive. Therefore investments for the extension of industries in support of farming (tractor and fertilizer production, rural electrification, as well as rural housing and

3:Kemeny G-5 (1945-48)1954 EC1 Hungary EC1

185
433

road building—amounting altogether to 900 million forint) were scheduled as 'agricultural'.

The programme outlined was designed to speed up reconstruction in Hungary and to give a definite direction to the development of productive power. As to the possibility of selling the increasing volume of products, the effective demand needed was to be created by the Plan itself and partly also by developments not planned in advance. Purchasing power for absorbing consumer goods was bound to be expanded by growing employment and by the adjustment of real wages to the rising productivity of labour. Regarding capital goods, it was the very essence of the Plan to secure means for financing investment on the scale provided and even beyond it.

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

CHAPTER V

THE INITIAL IMPULSE

INDUSTRIAL PRODUCTION

433 THE deficiencies of planning at the initial stages did not prevent conspicuous achievements in industry during the first Plan year, if viewed against the background of 1946–7. In the course of the year following the monetary reform, industrial output was restrained by shortcomings in raw-material supplies, the uneven flow of which also impaired labour productivity. Industrial potential was available far in excess of actual output. The losses due to war destruction were partly restored during the inflation period, so that at the time of the monetary reform capacities surpassed the pre-war level in terms of power equipment [454] (though lagging behind the peak attained in 1943). Investment during 1946–7 was not substantial. The Plan in this respect created a fundamental change. Opportunities of investment were offered, unprecedented in scale. In 1947–8 the sum placed at the disposal of industry for the extension of capital equipment was close to 800 million forint (£16 million). From the outset industrial investment exceeded the planned amount (554 million forint for 1947–8), though the difference was to a considerable extent a nominal one. Calculated at real value investment was 10 to 15 per cent in excess of estimate. It was claimed that replacement of obsolete equipment necessarily neglected during the war was not included in the figure quoted above. Four-fifths of the investment was devoted to capital-goods industries, with special regard to eliminating bottlenecks.

This extension of capacity could only yield results if supplies of raw materials became more reliable and plentiful than during the year preceding the Plan. It was the second remarkable achievement to provide for supplies sufficient to support an industrial activity so greatly increased. The utilization of domestic resources as well as increased imports had to contribute to attaining this result.

In preparation for the Plan during 1946–7 the most strenuous efforts had been made to raise coal, iron, and steel production. Though some progress was achieved, production of raw materials, except for crude oil, had been on the whole unsatisfactory in the year preceding the Plan. The conspicuous rise in

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

the oil output is explained by the fact that prospecting began to bear abundant fruit subsequent to 1938. 433

The following table of domestic supplies of material illustrates the progress recorded in the first Plan year.

	1938	*1946–7* (1,000 tons)	*1947–8*
Coal	9,360	7,750	9,850
Crude oil	43	640	496
Bauxite	467	248	400
Iron ore	370	214	260
Steel	650	510	720
Cement	370	143	280

In view of the dependence of several Hungarian industries on imported raw materials, the disintegration of international trade was another serious cause of shortage. Total imports in 1946–7 were estimated at 16 per cent of the pre-war volume. Timber imports were but 9 per cent of the quantity received in 1938, non-ferrous metals 13 per cent, cotton 60 per cent, iron ore 72, but metallurgic coke was 113 per cent. Ample consignments of both the latter items came from Russia and Poland. They were intended to keep heavy industry going, and to enable it to fulfil reparation commitments. 433 439

Within the framework of the Three-year Plan foreign trade was also 'planned'. Targets, corresponding to the projected extension of production, were set for the imports of raw materials and equipment. Export targets were adjusted to import requirements estimated at 2,100 million forint at the prices of January 1947 (against commercial imports amounting to 944 million forint in 1946–7).

The Government made efforts to attain the target by extending the network of trade agreements. It failed, chiefly because in consequence of the poor crops there were no agricultural surpluses. Imports nominally reached 90 per cent of the target. But, for comparison in volume, an allowance of at least 20 per cent appears necessary, to allow for higher prices. And even this result could only be attained at the cost of depleting the foreign-exchange reserves.

Adverse developments in foreign trade did not seem to curb the general upward movement of industrial production. But the growth was not quite according to the Plan estimates. The output of capital goods went well ahead, but that of consumer goods mostly lagged behind, though their targets had been very cautiously set, compared with the pre-war period. Achievements were recorded by the National Planning Department as follows (calculated on the basis of 1947 January prices): 433

3:Kemeny G-5 (1945-48)1951 EC1 Hungary EC1

433

	Index of output in 1947–8 (*100 in 1946–7*)	(*100 in Plan*)
Mining and metallurgy	120·9	105·4
Manufacturing industries:		
Iron, metal, engineering	160·9	123·3
Electrical-power production	128·0	121·0
Leather industry	193·0	156·0
Chemicals	117·0	109·0
Textiles	146·0	95·0
Clothing	227·0	84·0
Total Manufacture*	154·0	104·0

* Including items not quoted.

The extension of activities of light industry was left to the hazards of raw-material supplies. The special case of the leather industry, with an output pushed far beyond the target production programme, is explained by the existence of stocks of raw material which had not been fully taken into account by the planners. A heavy inroad was made on these stocks. None the less production remained, as in other important consumption-goods industries, considerably below pre-war level, while production in all capital-goods industries exceeded that mark. Yet the performance of industry as a whole, signifying a 54 per cent rise compared with the preceding year—calculated at 1947 January prices—was spectacular enough. In terms of quantities coal output rose by 27, steel production by 40 per cent. The expansion was realized without a corresponding increase in the labour force. In coal mining the result was mainly secured by regrouping, which raised the number of miners working at the coal-face. Thus average productivity, as measured by output per shift, was raised by 21 per cent. In manufactures the average number of those employed rose from 250,000 in 1946–7 to 291,000 in 1947–8. This moderate increase (16 per cent), if compared with the growth in output (54 per cent), indicates higher productivity of labour. The average rate of improvement in productivity amounted at this time, according to the computations of the National Planning Department, to 25 per cent. A 40 per cent rise was claimed later. The substantial difference between the earlier and the later version was not explained.[1]

[464]

AGRICULTURE

241 654

For agriculture the Plan presented a comprehensive development programme. The programme included investment to benefit crop-growing and stock-raising. Means were assigned

[1] See p. 93.

3:Kemeny G-5 (1945-48)1954 EC1 Hungary EC1

for the elimination of strip-farming,[1] for irrigation and drainage, for mechanization, particularly through the establishment of tractor stations, for farmers' training as well as for the extension of agricultural industries, for the increased output of fertilizers, for supplying the countryside with electric current, for road building, and finally for social services in the villages. Besides the funds provided centrally to be used for agricultural equipment, there were investments of individual farmers, which escaped central control. This activity took shape more especially in the increase of livestock and in new farm buildings. The development scheme, absorbing roughly 700 million forint (£15 million) in the course of the first Plan year, was bound to raise quantity and quality of production in the long run.

The planning which set out to determine the kind of cultivation to which areas of land should severally be devoted encountered certain limiting factors. In spite of a substantial recovery, the effects of war destruction on equipment and livestock were not yet effaced. Moreover, the consequence of the land reform had to be considered.

In consequence of the breaking up of the big landed estates broadly one-third of the agricultural area, formerly cultivated in big units, was divided into lots too small on the average to yield full support for a peasant family. Subsistence farming stepped in where formerly production for the market prevailed. The measures of adaptation required by the sudden change of structure, in particular, the change-over to more intensive methods of cultivation which is usually regarded as a corollary of the land reform, had to be postponed. The new farmers had to wrestle with the day to day problems of the lack of draught-animals and other traction power, of fertilizers, and of implements, and, last but not least, with a sequence of droughts. The fact that, in spite of all these adverse conditions, the area sown in 1946–7 was only slightly less (2 per cent) than the average of the period 1934–8 shows the determination of the peasants to work hard on the land they owned.

Low averages in yields, though imputed to the weather, were to a certain extent caused by deficient methods of cultivation. Yet it would be wrong to put the whole blame for the setback in production on the land reform. Post-war conditions in general and the adverse weather conditions had a substantial share in causing the unsatisfactory results. Those who sometimes argue that the hasty division of land aggravated the situation, do not take into account the fact that, in a world of social upheaval,

[1] This worst obstacle of economic farming was widely spread. It was to be found in its most extreme form in the Central Hungarian Plain.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

241 the big land-owners would have encountered troubles which
433 would have impaired the productivity of their estates.

From the following table it may be observed that changes, compared with the period before the war, in the relative size of areas to be devoted to the different branches of cultivation are not very great. The main features are reductions in the sowing of bread grains and the extension in the production of oil seeds. Reduced cultivation of bread grains accords with a permanent trend, while the emphasis placed on oil seed was rather a momentary reaction on account of the shortage of animal fats.

	Area sown in 1,000 yokes			*Area sown in 1947–8 in percentages of Plan estimate*
	Average 1934–8	*1946–7*	*1947–8*	
Wheat	2,806	2,388	2,324	95
Rye	1,114	978	1,005	106
Barley	811	773	784	93
Maize	2,029	2,309	2,263	107
Potatoes	509	482	490	93
Sugar-beet	81	169	185	148
Oil seeds:				
Main crops	63	278	390	105
Subsidiary crops	270	447	547	
Fodder	1,170	1,045	1,030	96

The divergence from the agricultural plan, so far as sown areas were concerned, was of no great consequence. But the supply situation was determined by average yields which were disastrously low in 1945–6 and improved only slightly in 1946–7. Food supplies during 1947–8 were dependent on the poor crops of the previous year. Thus scarcity of food became a feature of the first Plan period, as it was a characteristic of the year of the monetary reform. Inadequacy of food supplies was reflected in the price movements during 1946–7 as well as in that of the first Plan year.

	Crops results in million quintals		
	Average 1934–8	*1945–6*	*1946–7*
Wheat	22·2	11·3	12·6
Rye	7·0	4·2	5·0
Barley	6·1	4·4	4·0
Maize	23·1	13·6	17·8
Potatoes	21·3	11·4	14·6
Sugar-beet	9·6	5·2	11·6

RISING PRICE LEVEL

435 In the course of the year 1947–8, with soaring prices of farm products and considerably increased prices for manufactured articles, fluctuations were violent. The authorities, endeavouring to conform their policy to facts, roughly doubled the official prices for bread grains. By the end of the period reports on

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

against 1·70 forint in 1946–7. On the basis of yearly averages, there was a rise by 59 per cent, compared with a 14·6 per cent increase in the cost of living as reflected by the official index, making real earnings higher by 40 per cent than in the year preceding the Plan.[1] The computation disregards the existence of black-market prices as essential components of the cost of food. This cost-increasing factor existed in both the years compared, and its omission makes the comparison unreliable. Nevertheless, it can be surmised that real trends are reflected.[2]

The question might be raised to what extent supplies were available for improving the standard of living, even if only for the privileged class of wage-earners. Undoubtedly the output of consumer goods, as a part of the generally rising industrial production, was enlarged. The harvest was a little more favourable than in the previous year. Owing to this, and even more to improvements in the system of collecting the quotas, the food supply of the urban population was somewhat better than in the previous year. The upward trend in supplies was indicated by the estimate of the national income, according to which the amount of goods available for the consumer in the first Plan year exceeded the amount in 1946–7 by 30 per cent.

The official statement on the scale of increase in consumption needs some qualification. In the computation of the national income no allowance was made for the accumulation of stocks. According to expert estimates, stocks increased by about 850 million forint in 1946–7 and by 2,100 in 1947–8. If deductions on this account were made, the amount of goods available for domestic consumption would work out as follows (see Table XI, p. 141, on national income):

	1946–7	*1947–8*
	(million forint)	
Available for domestic consumption as officially stated	10,689	13,934
Less increase of stocks	850	2,100
	9,839	11,834

This more realistic approach reflects a definite upward trend in domestic consumption, too, but on a more moderate scale with a rate of increase of roughly 20 per cent.

[1] The fact that the rise in wages considerably outpaced the increase of the price level is explained by improvements in productivity per head. This implied that wage costs did not change in proportion with the rise of wage rates.

[2] The disregard of black-market prices in the official index of the cost of living invalidates comparisons with pre-war standards, and in particular the claim of the Hungarian planners that by the end of the first year of the Plan real wages had attained the pre-war level.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

p 61

CHAPTER VII

THE PLAN IN FULL SWING

SPEEDING UP INVESTMENT

DURING the first Plan year a start was made which appeared favourable for the planners' claims. They could point to a considerable rise in industrial production. In spite of a bad harvest, the standard of living of the workers improved, while at the same time investments on a large scale were carried out. In some places the picture was obscure. There was the ominous lack of effective price control, and, in the background, the disparity between incomes and the supply of consumer goods. There were shortcomings in exports, and finally there was unevenness of fulfilment in production and investment. Yet, in overall figures the programme of industrial production was fulfilled, and even slightly surpassed, if statistics involving an evaluation of a wide range of manufactured articles could be regarded as precise indicators. This seems to have been a surprise to the planners themselves, for, in reviewing the results, the responsible official of the Politbureau divulged that, owing to deficient information on production levels at the time when the Plan was prepared, output had exceeded expectations from the beginning.

It might have appeared tempting to enlarge the programme as soon as the possibility of better achievements became manifest. And soon there were more definite grounds for speeding up the execution of the Plan. One of these was a 50 per cent reduction of reparations due for the period following July 1948. This concession was made by the Soviet Government after the decisive political changes in the course of the spring of 1948, in particular the destruction of the Social-Democratic Party and the nationalization of manufacturing industry. The reduction was calculated to save budget expenditure exceeding 600 million forint a year; it was assumed that this amount could be diverted to investment. Though later on these hopes turned out to be unfounded, the prospect of saving on reparation account was used as an argument in favour of stepping up the capital programme. In fact, more than the amount of the reduction was required for the increase in defence expenditure, for the Plan, after its successful start, was more closely linked with military preparedness.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

controlled by them into a unit; they had to watch the fulfilment of the approved plans, and were to make provision, with the consent of the National Planning Department, for whatever changes proved necessary in any of the individual plans or in the sectional plan of the branch.

Moved by the considerations referred to,[1] the planners decided that the capital programme projected for the period August 1947 to July 1950 should be carried out by the end of 1949. Accordingly, production was to be speeded up so as to attain the level originally planned for the end of a three years' period within twenty-nine months. The decision required a new subdivision of the 'Three-year' Plan in place of the three twelve-month periods. It was found convenient to abridge the second part into the five-month terms of August-December 1948, while the third was to run, like the first, for twelve months, from January to December 1949.

INDUSTRIAL OUTPUT AND EMPLOYMENT

It was intended that industrial production should be raised in the closing Plan period to double that of 1946–7. In the first year a 50 per cent increase was achieved. During this first phase of expanding production the enterprises were to draw on their 'in-door' reserves of man-power. Their capital investments were concentrated on the elimination of bottlenecks, so that disproportionate increases of production were made possible. In the following period no special factors of that kind operated. Additional labour was to be employed, roughly in proportion to the stepping up of production. Opportunities for setting whole workshops in motion by replacing some damaged parts at small cost were exhausted. The mainstays of further development, the increase of the labour force and massive investment, were bound to be coupled with more searching methods of organization and factory management if the objectives of the Plan, including the rise in productivity, were to be realized.

The progress of industrial production is indicated by the index numbers computed by the National Planning Department.

INDUSTRIAL OUTPUT (PER CENT)

	1938	*1946–7*	*1947–8*	*1948 Aug.–Dec.*	*1949*
Actual	100	60	92	100	135
Planned	—	—	88	—	127

After the 50 per cent rise during the first Plan year industrial production appears to have been raised again by nearly 50 per cent within a seventeen-month period. In the cases of mining

[1] [See cat #6, pp 61-63--Analyst]

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

433 and metallurgy, which are not included in the index numbers quoted, the quantity of production was made public:

	1947–8	*1949*	*Increase*
	Output in 1,000 tons		*per cent*
Coal and lignite	9,860	11,500	16
Steel	720	848	18

It is striking that a steep increase in the production of manufactures, and especially of capital goods, should be accompanied by no more than a moderate rise in the output of coal and steel. For lack of detailed statistics on developments in the last Plan year it is hard to explain this. As no figures of foreign trade are published, it is not possible to say whether an increased production of capital goods was maintained by imported supplies of these materials. From what had been disclosed as to industrial developments—indicating nothing more informative than increases in percentages, modelled on the Soviet pattern of statistics—it could be discerned that, besides engineering and the chemical industries, the production of building materials was accorded special prominence.

Apart from the general index of production, the information given does not enable us to compare the out-turn of the Plan in the field of industry with the level of production in the year preceding the Plan. The index showed that industrial output had more than doubled since 1946–7. In interpreting these index figures their comparability is open to doubt. Even if they can be assumed not to contain more than the inevitable statistical errors, qualities varied in certain branches of production. The change of quality, it is true, was for the better in coal mining. The separation of impurities was already much above the poor standards in 1946–7. Yet in important branches of manufacture quality was deteriorating. Textile experts admitted (though not publicly) that since 1946 the amount of raw material for producing cotton fabric had been reduced by 15–20 per cent per unit. These more loosely woven textile goods were sold at unchanged prices while the reduction in material enabled the industry to record increasing quantitative results. In mechanical engineering the technical standard suffered from the departure of a number of leading experts and the altered position of the technical personnel in the enterprises and the plants. Labour contests, by over-stressing results in quantity, also told against quality production.

No data are available for estimating the deterioration of quality in engineering or other branches of industry. In the absence of a measurable quality factor, all that can be said is that the impressive quantitative statistics of industrial output

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

and Plan fulfilment mean less in terms of the satisfaction of human needs than they pretend. And even if it be admitted that the preliminary forecast was fulfilled or a little more than fulfilled in so far as quantities were concerned, there were other lines of fundamental importance in which a deficiency was revealed. The labour force which was required for maintaining industrial production on the scale intended appreciably exceeded what had been anticipated. It was expected, according to the programme, to be able to double industrial output through a 30 per cent increase in the average number employed. This expectation might, at first sight, appear over sanguine. It took account, however, of the extremely low productivity of labour before the start of the Plan, and it also relied on the effects of an improved and largely extended capital equipment. At the closing stage the Minister responsible for planning announced that the Plan provided employment for 200,000 work-people in addition to those previously engaged in manufacturing industry. In 1946–7 on an average 250,000 workers were engaged in manufactures. An increase of 200,000 would amount to a labour force of 450,000 in manufactures by the end of 1949. The Ministerial announcement appears to be an overstatement in the light of statistical evidence as released in the successive publications of the National Planning Department. These figures reveal some 415,000 employed in manufactures and about 70,000 in mining at the close of the Three-year Plan. The yearly averages for 1949 (derived from quarterly data) run as follows:

	Manufactures	*Mining and Metallurgy*
1946–7	250,000	59,000
1947–8	291,000	61,000
1949	382,000	67,000
increase against 1946–7	132,000	8,000
in percentages	53	13·5

Average employment in mining and manufactures in 1949 amounted, therefore, to roughly 450,000, in contrast to a planned employment of about 400,000 (310,000 increased by 30 per cent). This appears to be a 12 per cent excess of employment over the estimate. The general index of industrial production for 1949—135 compared with the estimate of 127 (based on 1938 = 100)—indicates an over-fulfilment by 6 per cent. But while the employment figure is real, the general index of production is unreliable. Though statistical errors may work in both directions, the differences in quality easily absorb more than the apparent increase of 6 per cent.

During the closing year of the Plan assiduous efforts were made to raise efficiency. The ground had been prepared by the

3:Kemeny G-5 (1945-48)195 ECl Hungary ECl

433 461 previous introduction of piece-work on the most extensive scale possible. But a laxity in the calculation of the norms stood in the way of satisfactory results. At the beginning of 1949 a new attempt was made to suppress abuses connected with the norms by strengthening discipline. A new basic collective agreement was concluded, comprising all workers in mining and manufactures. In the wording of an official announcement, it aimed at making latent resources of production available through getting rid of obsolete norms. The working out of new norms was to be supported by the devices of Stachanovism, i.e. by the instrumentality of 'shock-workers', named after the first 'hero of work' in Soviet-Russia under whose name this method of raising productivity was started. Nevertheless productivity in manufactures, as recorded officially, declined during the first half of 1949. Renewed efforts were then made. A resolution of the Communist Party called upon the trade unions and works councils to concentrate their activities on issues of productivity and labour discipline. A huge propaganda campaign was launched in order to create a mass movement of socialist workers' emulation. By the end of 1949 almost half of the work-people were engaged, according to official records, in this kind of rivalry. All that was attained as a result of the struggle to raise productivity apparently consisted in making up the setback suffered during the first half of the year.

INCREASING FOOD SUPPLIES AND THE COST OF LIVING

241 433 During the years preceding the Plan, agricultural developments were marked by extremely poor harvests. Yields in 1948 might be appreciated as a stride towards restoring normality in agricultural production. The harvest of bread grains was still about 20 per cent below the pre-war average, but those of maize and root crops were well above it.

	Average 1934–8	*1946–7*	*1947–8*
	Crops in million quintals		
Wheat	22·2	12·6	15·8
Rye	7·0	5·6	7·2
Barley	6·1	4·0	7·1
Maize	23·0	17·8	29·6
Potatoes	21·3	14·6	23·3
Sugar-beet	9·6	11·6	15·9

Regarding the harvest of 1948–9 it was officially stated that the wheat, rye, and barley crops exceeded the yield of the preceding year by 25 per cent. This 'statistical' information might suggest that in this sector of agricultural production pre-war levels were almost attained, implying the disappearance of a

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

shortage in vegetable food. Harvests in maize and sugar-beet were, however, disappointing. Failure of the maize crop explains why supplies in meat continued to be scarce.

It may be recalled that during the first Plan year the country laboured under a food shortage, with all its implications for prices and wages. The period August-December 1948 was the first since the monetary reform in which the cost of food declined. A reversal in the trend of agricultural prices, due to causes already explained, was the prelude to this change.

The extent of the improvement brought about by bigger crops might be illustrated by comparing the peak of the retail food index in February 1948 with the low point of that year in September: 159·9 against 113·9.[1] Prices then caught up again with a concomitant revival of the black market, as apportionment even of the low rations became irregular. It was a poor record of the state of efficiency in food administration. Political headquarters accused the peasants of sabotage. The countermeasures taken were not to produce palpable results till the following year.

Wage policy was adapted to the change of conditions. In contrast with the line pursued at the start in August 1947, the second Plan period did not open with a general rise in wages.[2] The pay-roll in manufacturing industry grew roughly in proportion to the expansion of employment. Average wages, as shown by official indices, were kept stable in mining and appeared to decrease slightly in manufacturing industry. The Government and trade unions were able to follow this line owing to increased food supplies reflected in declining official prices and owing to a diminishing dependence on the black market.

The publication of index numbers, as well as of other relevant statistical data, ceased in 1949. The National Planning Department, in a statement released to the press, claimed that real wages had increased by 20 per cent during the first half of the year. In the second half a further general rise by 5 per cent was recorded. In the earlier periods the upward movement of money wages had been induced and accelerated by soaring food prices. This time the cost of living was diminishing. The harvest of 1949 further improved vegetable food supplies. It was followed by the de-rationing of bread and by the practical disappearance of the black market for food. According to official statements the cost of living decreased by 7·4 per cent and the cost of food dropped by 12·4 per cent during 1949. Wage increases gained therefore a different significance from those previously

[1] See Table IV in the Appendix, pp. 137–8. [2] See p. 50.

3:Kemeny G-5 (1945-48)1957 EC1 Hungary EC1

652

COMPARISON OF NOTE CIRCULATION

in million forint

	1947	*1948*	*1949*
June	1,468	2,070	3,007
September	1,834	2,506	3,175
October	1,868	2,585	3,052
November	1,829	2,543	—
December	1,992	2,816	2,629

185
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Conspicuous changes were brought about by the Three-year Plan in the Hungarian economy. In the first phase the unfolding of the Plan was gradual. An ambitious capital programme was carried out to lay the foundations for later expansion. Employment in industry was increasing slowly, while a struggle against disabling food conditions was going on. Shortage of food played havoc with price control and wage policy.

During the second phase the capital programme was pushed forward at an accelerated pace. In industrial production the rate of increase, though considerable, was slower than at the initial stage. Expansion of productive activity was such that industrial unemployment was eliminated, and part of the unutilized man-power in agriculture was absorbed. The building trade, which had been very depressed up to the end of 1948, was included in the expansion. Its revived activities were in part directed to supporting the rearmament programme, and in part anticipated the requirements ot the Five-year Plan to be started in January 1950.

Owing to more favourable crops, food conditions became normal and price control more efficient. But productivity in industry did not improve to the extent hoped for. In spite of all efforts to produce results by Stachanovite devices, the problem of reducing costs in manufacturing industry was not mastered.

3:Kemeny G-5 (1945-48)195.. EC1 Hungary EC1

88·5 million forint. It was much more expensive to keep coal and iron prices at the chosen level. In fact, the combined deficit of coal mining and heavy industry, which the Government had to cover, was nearing 400 million forint. It is true that this amount included expenditure for replacements and even for disguised capital extensions. Yet another 27 million was spent on iron price subsidies, and still a share in the financing of the deficit of the coal and iron industries was passed over to the National Bank. In the next financial year the visible burden imposed on the budget became less. Price adjustments and also cost reductions may have brought some relief.

The second group of commodities, with prices adjusted on the whole to the market position, consists mainly of those food products the supplies of which are subject to seasonal fluctuations, such as eggs, potatoes, and other vegetables. For these commodities the authorities were disinclined to adhere rigidly to the officially proclaimed standard prices.[1] There was in particular a group of Moscow-trained men in key positions who had a marked preference for a freer play of the mechanism of the market. They did not conceal their contempt for market control and rationing, as being unpopular relics of war economy, and they were quick to release these controls as soon as the supply position became somewhat more hopeful. Sometimes they succeeded in their action, so that the prices of the free market established themselves between the former black-market prices and the former official ones. But in some cases in which the adherents of the market mechanism had hoped to rake out hidden reserves by the liberation of prices, the action proved to be a failure. In the absence of appreciable reserve stocks, prices soared even above the former black-market level. The price movements of the articles concerned were therefore erratic, and hardly consistent with a planned economy. As consumers were compelled, in view of the extremely low rations, to buy part even of the rationed food on the black market, a considerable part of supplies changed hands at free or black-market prices. This is true in particular of the first Plan year. Thus food prices were determined to a large extent by the actual purchasing power of the consumers, and only in part by regulations issued by the authorities.

It would hardly be correct to qualify these short-term movements, representing adjustments to momentary supply

[1] The announcement of standard prices was mostly related to local markets. Violation of these prices did not involve an offence against the Act of Price Regulation. However, in case of heavy fluctuations administrative action was sometimes taken against excessive profiteering. An essential point in fixing a standard price was that the communal enterprises for food supply were bound to keep to it.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

435 situations, as a sign of the predominance of the market. Agri-
433 cultural production was, in fact, fundamentally guided by the decisions of the Government on the price relation between vegetable and animal products and by other measures more directly applied. Nevertheless, in some instances farmers may have been influenced in their decisions concerning cultivation or stock-raising by considerations of prices obtainable on the free or the black market. Thus even a market intended to be an instrument in the hands of the planners has retained a limited regulating influence of its own, and has left some latitude for the guidance of production by the consumer's choice. This applies to the urban as well as to the rural population. The farmer was free to choose whether to spend the money income left to him on buying implements, fertilizers, or textiles, and was able to decide in what proportions his money should be allotted to these different uses. It is obvious that the choice must depend on the relative prices and the quality of the products. When implements were offered which did not suit the peasants' requirements, they were rejected, and the production programme of several factories had to be revised. When prices were fixed too high, buyers' resistance resulted in an accumulation of stocks, which threatened to derange the economic process in the sectors concerned. Resistance of this kind was experienced from the peasants, who found that the prices of fertilizers were out of proportion to the grain prices in force in 1947–8. Similarly consumers were reluctant to buy the products of the food-preserving industry, as the prices were found out of range of their income level. In both cases prices as well as costs had to be thoroughly revised and special credit arrangements to be made for the period of absorption of excessive stocks.

434 The market, though subservient to the Plan, claimed its right.
433 It proved inevitable to acknowledge these rights to a certain extent in an economy based on money incomes. The planners were aware of this, and were prepared to heed warnings coming from the market, which was still regarded as a useful instrument. However, the field within which consumers' preferences could be effective had been from the first delimited. The extension of the capital-goods industries, being centrally decided, was not subject to that influence. The scope left to the consumer's choice was, in fact, to induce shifts in the production of consumer goods, but only after the fundamental allocation of resources to the production of capital goods on the one hand and of consumer goods on the other had been made.

435 The third group of commodities, those of which the prices were governed by controlled cost, included the wide range of

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

enterprises. Regulations applying particularly to the calculation of the profits of private enterprises require separate mention. A profit rate of either 5 or 8 per cent on sales reckoned at factor cost[1] was fixed. It depended on the ratio between the yearly amount of sales and the capital of the enterprise which of the two rates should be employed. The higher rate was applicable when yearly sales did not amount to more than double the capital; in other cases 5 per cent was admitted. It was the competent Industrial Directorate that decided upon the classification of the individual enterprises from the point of view of profit-rate calculation. How this rough and ready system works has not been disclosed.

The same base was used for determining the scale of contributions of public enterprises to the Treasury. It was the sales again that furnished the basis for the payments of the enterprises to the central depreciation fund. An earlier decree fixed to that effect a wide range of rates up to 13 per cent to be paid in as depreciation allowance. These rates were, in fact, not applied. A skeleton decree authorized the Planning Department to determine the rates. There is evidence that they were fixed at a very low level, and, though contributions according to industries varied, they were not correctly adjusted to true depreciation needs. Payments due on account of the company's tax also conformed to the sales pending final adjustment. It was, in fact, a peculiarity inherent in the whole accounting system, to rule out the capital account from calculation, a practice involving, in view of the low depreciation allowances, the danger of capital consumption.

The obligation to provide for replacements by monthly payments into a fund administered by the Investment Bank was imposed on public and private enterprises alike. The common fund of the public enterprises was subdivided into an investment section and a replacement section. The former—25 per cent of the whole—might be used, on instructions from the National Planning Department, to cover minor investments. The reserves built up by nationalized enterprises could be redistributed irrespectively of the amounts paid in by individual concerns. By this provision a central depreciation fund for industry under the command of the Planning Department was created.

Regulations on costing aimed at preventing waste and uneconomical methods of production, and a series of measures

[1] Though not essential to the working of the Plan it may be mentioned as characteristic of the position of private enterprise that only the accessory bank charges connected with loans were admitted as costs. Interest could not be included in the costs; it had to be deducted from profits. This measure evidently aimed at deterring private firms from borrowing.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

were taken to ensure further rationalization in industry. Much attention was paid to standardizing industrial production. An institute was established under the auspices of which suggestions for reducing the manufacturing of tools to a few standardized types were soon carried into practice. Similar steps followed in textiles and also in other industries. The importance attached to the problem of rationalization was underlined by the vast propaganda encouraging workers' innovations. This widespread action presumably scored success even if a good deal be abated from the official tribute paid to it.

Important steps towards rationalization were taken following the transfer of manufacturing industry to public ownership. In several industries, first of all in engineering, specialization of plants has been carried out. In concentrating the output of tractors, of lorries, of certain tools and implements, the former dispersion of production among a number of factories was eliminated, and the way opened for more economic methods of production.

THE DRIVE FOR INCREASED PRODUCTIVITY

A substantial increase in productivity was one of the fundamental conditions of the fulfilment of the Plan. For the third Plan period the planners envisaged an average productivity of labour in mining and manufacture 50 per cent above the level of 1946–7. As pointed out above (p. 65), they hoped to double the volume of production with a labour force raised by one-third only. Both enlarged equipment and improved working methods were to play their part in attaining the result.

The objective appeared bold at first sight. Yet in 1946–7, with an average productivity of labour in industry between 65 and 70 per cent of that before the war, an improvement by 50 per cent did not imply more than a restoration of the former standard. Nevertheless the obstacles could not be altogether overcome. Half the distance was covered during the first Plan year. According to statements already referred to, in 1947–8 the productivity of labour was raised by 25 per cent in manufacturing industries and by 21 per cent in mining, compared with the average of the previous year.

In appreciating these achievements, the background has to be considered. They represent a second step towards higher productivity. The first had been taken in 1946–7 consequent upon the monetary reform, though inadequate raw-material supplies impeded a steady development of industrial production in that year. But the numbers in employment could not be

3:Kemeny G-5 (1945-48)195 ! EC1 Hungary EC1

433 [464] adjusted to the shortages of raw materials. In the absence of unemployment relief, the enterprises had to retain their workers irrespective of the enforced reduction of output. A considerable disguised or 'in-door' unemployment existed therefore in 1946–7. As a result of this kind of unemployment, a more plentiful and regular inflow of raw materials produced an apparent increase in productivity per head, because all the workers registered as employed were doing productive work. To the extent that this occurred, the improvement in productivity during 1947–8 cannot be claimed as a success of planning. It would no less have been brought about by any form of general economic recovery which ensured a more ample supply of raw materials. Increasing production, whatever the explanation, assisted the reduction of costs; and improvements in technical equipment worked in the same direction. These factors given, the decisive questions were to what extent managements were able to avail themselves of the opportunities offered, and how labour reacted. The answers depended on factory organization on the one hand and labour discipline on the other; and especially on a system of wages, calculated to relate wage costs to efficiency.

461 The main line of attack was recognized early enough. A steady pressure had been exerted since 1946–7 to introduce piece-work wherever it was technically feasible. Yet expectations in this respect were not realized. The workers did not agree with the methods applied, and they found ways, by pressure exerted in the workshops, to evade the norms fixed in collective agreements which had to be repeatedly revised. Under that pressure piece-rates were not fairly applied or were not correctly recorded. These practices involved higher earnings without an adequate increase in production. The managements mostly complied with the intentions of the workers.

Then the support of the trade unions was invoked, and, to enable them to fulfil their new function, they were reorganized according to industrial branches. In spite of all the efforts made, the terms of the collective wage agreements did not prove tight enough to prevent the manipulating of the norms.[1] The main motive of the resistance of the work-people against the proper handling of piece-rates was by no means political. Yet it was at the same time an expression of the fact that the rank and file of the workers did not identify themselves with the regime.

The enforcement of piece-work was coupled with a variety of devices to supplement the basic incentive. Steeply increasing premiums were awarded for achievements surpassing the stan-

[1] As pointed out in Chapter VII.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

475 field of specialization, and that, through the transfer of machinery that was not being used, bottlenecks could be eliminated in several factories.

However, the incorporation without adequate preparation of more than 600 enterprises in the publicly-owned section could not fail to have detrimental repercussions on conditions within the factories. The upheaval naturally entailed changes in the management. Leading industrialists, regarded as representatives of capitalistic interests, were eliminated first, and next a number of other managers and responsible technicians who were accused of unsocial behaviour. Former owners, even of small factories, who were personally connected with their business had to be turned out on grounds of principle. If their political reliability was not questioned, they might possibly be employed in other concerns or by the industrial directorates. These engagements usually did not last long, and most of the persons concerned left the country as soon as possible. All this occurred at a time when, in consequence of the establishment of twenty-nine industrial directorates and of an even greater number of operative centres for the different industrial branches, the need for industrial experts suddenly increased. The decision was then taken to promote workers to the executives, and in a series of industrial enterprises, including some of the most important, workers got [433] leading positions. It should be stressed that amidst all these changes no adverse effects on the quantity of production were noticeable. In spite of deficiencies in management and factory organization, output moved upwards parallel with an increasing labour force, improved equipment, and enlarged capacities.

After a certain time rifts, not directly connected with the initial troubles, became perceptible. At the outset the managers of public enterprises had been endowed with the authority of decision proper to the position of responsible men. The importance of personal responsibility was repeatedly stressed in official declarations. Yet the influence of the bureaucratic industrial directorates prevailed. And a decree put in force early in 1949 introduced a system of dual control within the enterprises. According to this order the chief accountant of the public enterprise became responsible jointly with the director-general for the conduct of the business. The chief accountant was bound to hold up the execution of any instruction which in his opinion was not in accordance with the rules in force, unless he received a written order from the director-general. Whenever such a case occurred it was to be reported to the competent Minister and the Central Office of Control. The engagement, transfer, or

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

discharge of a chief accountant was permissible only with the the consent of the competent Minister.

This method of dual control, which under normal conditions is a useful expedient for financial supervision, proves less efficient in an atmosphere full of suspicion, under the continuing threat of purges. The measure aggravated the prevalent tendency to shirk responsibility, which became a serious impediment in the management of enterprises. Delayed decisions obstructed adjustments. The bureaucratic methods of conducting business hampered exports.

Consequent on the efforts to reach the production quotas, or possibly to exceed them, emphasis was placed on quantitative results. The enforced acceleration of the pace of work in the labour contests was not conducive to maintaining the quality of products. The policy of encouraging lower-grade technical improvements within the workshop threw the importance of more substantial inventions, such as might effect improvements of quality, into the shade. The authorities did make efforts to encourage industrial research. But the attention of industrial executives, in particular of the new managers recruited from the workers' class, was centred on the workers' innovations. Remedial measures were tardily taken. It was only in November 1949 that a decree was issued on the establishment of committees for supervision of quality in the factories. At the same time the decree provided for training courses for the supervision of quality in the various sectors of light industry.

In summing up the results of these exertions,[1] we are faced with a question which has been the subject of much controversy with labour, the productivity per head in industry. Taking the volume of output per man-hour as a basis, the Planning Department stated that, compared with 1946–7, productivity in manufacturing industry had risen 25 per cent during the first Plan year. The Department claimed at the same time that during 1947–8 productivity per head had attained (on an average) 86 per cent of the pre-war level. In the course of the second short Plan period productivity improved, as it seems, slowly, attaining in December 1948 about 96 per cent of the pre-war level.

The Report of the Planning Department on the first half of 1949 stated that during this period improvement was unsatisfactory, the level of productivity being in June 4 per cent below that of the last five months of 1948. (The productivity level during these months was at an average slightly over 90 per cent of pre-war).

[1] According to press reports hundreds of thousands of workers were involved in the labour contests in the autumn of 1949.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

461 Unsatisfactory developments were underlined in a mass meeting held in August 1949. Responsible political and trade-union leaders, addressing this meeting, reproached the workers bitterly for their declining efforts in spite of increasing wages. Practices, including go-slow in order to enforce the modification of piecework norms, were condemned. These practices resulted, as the leaders complained, in the falling-off of the productivity of labour.

433 The Planning Department reported then on the third quarter of 1949 (without mentioning figures) that productivity had greatly improved after the summer vacations, i.e. after August.

The planners made a point of comparing results with those of 1938 so as to illustrate progress in terms of peace-time achievements. According to their original estimates, production in manufactures was expected to exceed output in the last pre-war year by 27 per cent (and in mining by 34 per cent), while the increase over that year in the industrial labour force was expected to be 25 per cent. It would seem therefore that they planned a re-establishment of the pre-war standard of labour productivity.

Industrial production attained, as stated by the National Planning Department, 135 per cent of the pre-war volume during the first nine months of 1949. In December of that year the Minister for Economic Co-ordination, when submitting the bill on the Five-year Plan to Parliament, declared that industrial output had by then surpassed the pre-war volume by 40 per cent. This result in the last month of the year could but slightly modify the three-quarters average of 135, and is far from substantiating the claim for a much higher achievement raised a few weeks later.

None the less the Final Report on the Three-year Plan (in the form of a communiqué of the Planning Department, released for the press) quotes some astonishing figures on industrial production and productivity. It is claimed that the programmes set for production in mining and manufactures were surpassed by about 20 per cent, so that the pre-war level of production was exceeded by 53 per cent. This claim includes that productivity of labour would have improved by 25 per cent in the closing Plan period, attaining thus 120 per cent of the pre-war standard. The figures presented in the Final Report are not reconcilable with the authoritative and official statements which were made in the consecutive stages of the Plan up to its closing period.

With the claim of a sudden rise in productivity per head a revised schedule on the improvement of productivity over the

[in productivity--Analyst]

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

whole Plan period was presented. Within this schedule the figure for 1946–7 appears considerably reduced, so as to make the rise in productivity under the Plan the more impressive. The revised figure for 1946–7 (58·9 per cent of the pre-war level against 69 per cent according to the former calculation) is inconsistent with the estimate of the national income of the year in question. This estimate was then endorsed by the Institute of Economic Research, a body with a scientific tradition.

While inconsistencies arising from the revised productivity figures are not confined to that past period, no explanation whatsoever was offered for the substantial difference between the figures of the Final Report and the statements of the Planning Department concerning the successive phases of the Plan. If these statements were correct productivity during the first eight months of 1949 was but slightly over 90 per cent of the pre-war level. To attain in 1949 an average of 120 per cent of the pre-war standard it would have needed a 170 per cent level for September-December.

The following table compares productivity indices (a) as registered in successive phases and (b) those claimed later on with output per head calculated from the indices of output and the average number employed.

	Manufactured output	*Workers employed*	*Output per head*	*Indices of Productivity* (*a*)	(*b*)
1938	100	288,000	100	100	100
1946–7	60	250,000	69	69	58·9
1947–8	92	291,000	91	86	82·7
1949	135	382,000	102	—	119·7

Figures of the output per head in the third column reflect the actual developments in the course of the Plan: a considerable improvement in the first year, difficulties and slow progress during the further stages.

The revised scheme on productivity and output carries striking incongruities. There is a lack of correspondence between productivity and output on the one hand and the increase of the labour force on the other. In 1946–7 at an average 250,000 workers were engaged in manufacture. If productivity between that year and 1949 doubled, a 70,000 rise in the labour force was bound to be sufficient for pushing up output by 125 per cent. Compared with 1946–7 the addition to the labour force in 1949 was not 70,000 but 132,000.

It has been pointed out (pp. 63–4) that as the expansion of heavy industry, in particular of engineering, was an outstanding feature of the Plan, the increase in steel output was surprisingly moderate (pp. 44, 63–4). The alleged accelera-

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

433 tion in the closing Plan year resulted in a still greater disproportion between the rate of increase in the overall production in manufactures and the expansion of steel output:

RATE OF INCREASE IN PERCENTAGES

	1947–8 compared with 1946–7	*1949 compared with 1947–8* (a)	(b)
General index of production in manufactures	54·5	46·7	65
Steel output	41	17·7	

(*a*) based on the figures as recorded successively.
(*b*) based on the revised figures.

In view of the discrepancy revealed by these figures it might be questioned whether, based on a 17·7 per cent rise in steel output, a general expansion of industrial production even at the more moderate rate of 46·7 per cent was feasible.

433 316 A few specific facts on the development of productivity in coal mining might cast some light on the prevailing tendency. It is not suggested that productivity in the coal pits would develop precisely in line with efficiency in manufacturing industry. There is, however, a case for supposing that, as a result of a similar change in underlying conditions (better food, regular raw-material supplies, restored labour discipline, and improved equipment), the general trend of productivity would be parallel in both sections of the economy. Moreover, the data related to coal mining offer a firmer basis for the calculation of productivity since, instead of a vague general index of production, output in quantities is available. The facts read as follows.

	Output in million tons	*Workers employed (Yearly average)*
1938	9·3	37,100
1949	11·5	59,500

The figures require qualification in order to draw a fair comparison of productivity. The eight-hour shifts worked by the miners before the war meant an effective eight hours' work, exclusive of the time needed to get to the coal-face and to return to the pit-entrance. Since the end of the war this going to and returning from the coal-face was included in the eight-hour shift, implying that according to the distances, effective work was done for six to seven hours. Thus, given unchanged productivity of labour, a number of miners exceeding by 18 to 20 per cent the pre-war labour force would be required to extract an equal amount of coal. Making allowance for this change in net working hours the table above discloses a 24 per cent rise in output and an increase of 36 per cent in the labour force. This degree of productivity in mining cannot easily be reconciled with the progress officially claimed.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

The poor result is the more remarkable as much attention was given to the mechanization of the coal mines.[1] [316] 433

On all these grounds put forward the claim has to be dismissed that subsequent to the Plan period a substantial addition to the output as recorded previously would have been discovered, entailing a most impressive improvement in productivity. A scrutiny of the facts indicates that the revision of the earlier figures did not result from the elimination of some statistical errors, but was a piece of political propaganda.

Developments during 1949 widened the gap between the cost and the productivity of labour. It was officially stated that average hourly wages in manufactures rose between January 1947 and December 1948 by 86 per cent. For the first half of 1949 a further 20 per cent rise was announced. Taking the figure for January 1947 as representing the average wage for 1946–7 (an assumption not quite correct, yet near the facts), in 1949 wage costs were roughly 120 per cent higher than in the basic year. Productivity in manufactures rose from about 69 in 1946–7 (1938 = 100) to 96 per cent by the end of 1948. As pointed out, further development of productivity was, if any, only slight, so that a rise of some 50 per cent in productivity compared with a 120 per cent rise in wages. While this kind of overall figure is far from providing a precise yard-stick, it does point to the existence of a considerable maladjustment between wage costs and productivity of labour. As it seems, the growth of wage costs has outstripped the cost-saving effects of greater labour efficiency. Improvements of the social services contributed to augment labour costs. According to a trade-union expert the outlay for health service and social insurance per head doubled in the first Plan year, and the final report of the National Planning Department says that the whole cost of social services in 1949 was met by employers' contributions amounting to 38 per cent of the pay-roll. There were no workers' contributions in the form of deductions from wages. 433 465

Labour costs evidently presented the main problem, but by no means the only one. In dealing with the costs of production, the head of the National Planning Department complained of the use of quantities of fuel and materials well above peace-time levels, and of the very little economy attained in this respect during the first Plan year. A matter of serious concern was the high rate of waste. In heavy industry it exceeded the pre-war 433 461

[1] In the first year of the Plan 110 million forint were spent on the re-equipment and extension of coal mining (total industrial investment including mining 792 million). For the later phases no figures are available, yet it was officially stressed that much had been done towards mechanization.

3:Kemeny G-5 (1945-48) 052 EC1 Hungary EC1

433 461 level by about 50 per cent.[1] It had originally been caused by unsatisfactory labour discipline, but a further deterioration was brought about by the speeding up which the labour contests induced. In a number of cases the increase of waste was an unmistakable sign of sabotage. Thus the problem of waste became one of national importance, and the necessity to deal with it was stressed again and again in the propaganda for raising productivity.

433 The intense efforts concentrated on this issue show that the question of productivity was felt to be one of the vulnerable points in the execution of the Plan.

MAN-POWER POLICY

464 [185] The Three-year Plan was not designed to bring about full utilization of resources. Its natural effect was to raise the labour force in industry, but it did not look forward to the absorption of the entire available man-power reserves. It was not calculated to abolish altogether the chronic state of under-employment, which had been an outstanding characteristic of economic and social conditions in pre-war Hungary. Expanding industry was allowed to draw upon the man-power reserve through the mechanism of demand, as in the past. During the years between the two wars rural labour reserves were steadily attracted by industrialization, but the process was very slow in reducing the prevailing under-employment. Under the Plan the process of absorption was considerably speeded up.

In the absence of any comprehensive statistics on unemployment in Hungary, no official statement is available as to the size of the man-power reserve. The trade unions registered unemployment in industry, but there were no records regarding the main contingent of idle man-power, i.e. in agriculture.[2]

The only systematic approach to an estimate of agricultural under-employment is related to the year 1930.[3] In carrying out the inquiry, the amount of work required for the different

[1] Information leaked out on the unusually high rate of waste in some industries during the first half of 1949. In a foundry in Budapest, which had previously achieved outstanding performances, the waste was reported to have surpassed 6 and during one month even 9 per cent, compared with a pre-war figure of 2-3 per cent. In the whole of the weaving industry the waste fluctuated between 3 and 3·6 per cent; it attained in some of the factories 6 and, in exceptional cases, even 10 per cent.

[2] Had there been an unemployment insurance scheme, the numbers of those who qualified for benefit would have been recorded, but even so not the numbers of peasants whose efforts were incompletely occupied.

[3] Dr M. Matolcsy, *A mezőgazdasági munkanélküliség Magyarországon* (Unemployment in Hungarian Agriculture, Budapest, Hungarian Institute for Economic Research, 1933).

3:Kemeny G-5 (1945-48)1951 EC1 Hungary EC1

471 655 worked, the scanty reports leaking out after 1948 indicate that its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

Special Investment Control

433 454 Imperfect synchronization of the delivery of capital goods with the rhythm of plant expansion was a difficulty hard to overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

454 655 The Investment Bank was in charge of the permanent control of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

454 474 452 The control of investment in agriculture and small-scale industry was handed over to the National Credit Institute of

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

Co-operative Societies. As the centre of the rural credit co-operatives, it disposed of a network of branches over the countryside. These branch offices were insufficiently staffed with experts even before their political reorganization, which meant the expulsion of the wealthy peasants. Little is known of the extent to which the newly-established Rural Credit Councils (i.e. the Boards of the local co-operatives) were able to assist the authorities in keeping investment in agriculture in line with the Plan. The Councils were militant political bodies rather than committees of experts.

A RIGID SYSTEM

The conception of the planners was to make the economy effective by imposing a multiple system of controls on it. The National Planning Department, assisted by the different Government Departments, was the principal agency of the controls. Yet with all its wide powers, the efficacy of the Planning Department in supervision and direction was limited. Another centre of control was created by the reorganization of the National Bank. The establishment of the single-account system seemed to offer the planners a device for checking economic activities in all their successive stages.

Tightness of control was thought to be essential for the execution of the Plan. But according to the original conception control was confined to production. The Plan, as drawn up in 1947 on the basis of a system of mixed economy, envisaged a detailed regulation of production, but it was assumed that the flow of consumer goods would roughly correspond with the creation of purchasing power through increased production. This assumption failed to take account of the vicissitudes of price controls and wage policy. During its first phase the Plan did not extend its control to the activities intermediate between production and consumption, i.e. it did not apply to trade. Wholesale dealers (and even less, of course, the retail traders) were not bound to submit plans concerning their prospective turnover, though they had to report on man-power employed, or apply for approval of investment in so far as it exceeded the 200,000 forint mark. The existence of this stratum preserved a certain resilience within the economy. It proved, in a way, helpful in overcoming difficulties in the administration of the Plan, though the activities of the dealers may, in some instances, have been a nuisance to the planners. When the ceiling for the bank-note circulation prevented the allocation of credit required for carrying out production demanded by the Plan, the concerns affected some-

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

656 433 times found a solution in forced sales to merchant firms which had command of capital. These firms again were able to assist in relieving the difficulties of publicly-owned concerns by taking over, at a sacrifice of price, stocks which had accumulated to excess in consequence of delay in adaptation to unexpected shifts in consumption.

[442] This safety valve for the planned sector disappeared in the second phase of the Three-year Plan as soon as wholesale trade was transferred to public ownership. The methods of operating the Plan and the entire economy became more rigid than before. The activities of wholesale trade were assigned to a limited number of monopolistic trading companies, each of them concerned with the products of a branch of industry, or a complex group of agricultural produce. The sales departments of the manufacturing concerns were merged with their respective trading companies, following the principle (almost made into a dogma) that manufacturing and trading activities should be separated. All these changes involved a bureaucratic spirit in trading.

461 433 The rigidity of the system was aggravated by a personal factor, which is inherent in an order of strict centralization, the shirking of responsibility on the part of executives. Another unceasing difficulty in the way of prompt adjustments of production was the scantiness of reserves of raw materials, semi-finished products, and spare parts. All these reserves were extremely low when the Plan was started, and though the worst gaps were soon filled up, it was hard to keep pace, all along the line, with the requirements of a rapidly-expanding production.

In spite of all these frictions and obstacles production was forced up. It was a grim determination which helped the planners to overcome difficulties. But their production drive owed its success to a considerable extent to the fact that shortcomings due to misconceptions or failures in calculation could be counterbalanced by drawing on unutilized reserves of manpower.

3: Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

439 The configuration of the balance of trade of 1947–8 is typical of a country with expanding investment, rising consumption, and a concomitant inflationary pressure. As a result of the inflated current prices, foreign trade fell short of the amount planned by more than the comparison of figures discloses. According to the officially-computed indices of export and import prices, values in 1947–8 are to be reduced by at least 20 per cent to allow for the price increases which followed January 1947.

Returns of foreign trade ceased after 1948. In the calendar year 1948 exports and imports were nearly balanced (1,933 million against 1,975 million forint), thanks to the improved harvest of 1948 which permitted forced agricultural exports in the autumn months.

Allusions to a relative increase of foreign trade in 1949 suggest that commercial exports and imports moved around 3,000 million forint each, thus establishing a balance. It was, if really attained, a very remarkable achievement in view of the rapid industrial expansion and the resulting increased needs for raw materials and equipment. It has to be remembered that heavy reparation deliveries were still going on. A considerable export surplus had, in fact, to be produced in order to attain a balance of commercial trade.

ATTEMPT AT RESTORING INTERNAL BALANCE IN 1949

433 In contrast with developments in 1947–8, there was a fundamental change in conditions in 1949. Food shortage was eliminated and the cost of living stabilized. Wage increases in the first half of this year had different economic effects from those afforded during 1947–8. The latter were largely designed to cover minimum requirements for food, whereas a rise in wages in 1949 meant additional demand for food or manufactured goods, which apparently could be met by improved supplies. This increase in supplies was sufficient, as it seems, to offer an increased attraction for tens of thousands of work-people drawn from under-employed rural districts into industrial occupations. To some extent the supply of consumer goods exceeded current production through increasing sales of furniture and other belongings by members of the middle and professional classes who had been deprived of regular income.

434 652

652 The turn of the tide on the commodity markets now counteracted the possible effects of an inflationary injection of money. The Bank of Issue was still financing a part of the capital pro-

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3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

p 119

CHAPTER XI

REPERCUSSIONS ON INTERNAL STRUCTURE AND EXTERNAL RELATIONS

INTERNAL STRUCTURE

THE programme of reconstruction and expansion of industry contained in the Plan was, on broad lines, realized. Industrial equipment was not only replaced after the damage suffered, but considerably improved, even if allowance be made for concealed arrears of replacements. In agriculture some steps, though not decisive, were taken towards mechanization, based on a network of State-owned tractor stations. The rate of recuperation was speeded up by the development scheme.

In manufacturing industry structural changes took place. The shift towards the capital-goods industries has already been described from different aspects. The idea was, by means of the structure, to lay the foundation for a large-scale industrialization. In the light of recent developments it should be remembered, however, that the Hungarian production of capital goods is by no means destined for the exclusive supply of the home market. A considerable part of the output of heavy industry is earmarked for reparations, a further part—consisting mainly of vehicles and products of electrical engineering—is destined for export to the Soviet Union under commercial agreements. Even so, these exports left a margin for re-equipping Hungarian industry and transport. The trend of development is shown by the fact that during the closing Plan period the production of the capital-goods industries exceeded by 74 per cent the pre-war level, in contrast to a rise of about 20 per cent in such important consumer-goods industries as textiles and footwear.

An additional employment of 175,000 workers in mining and manufacturing industry, amounting to an increase of 56 per cent over 1946–7, made a start in drawing off the man-power reserve from agriculture.[1] The rapidity of this process as it developed in 1949—even apart from the shortage of skilled labour—might have caused local tensions in the labour market, as the recruiting of the reserves was not organized. The under-employment of man-power in Hungarian agriculture was partly a consequence of the subdivision of the land into very small

[1] The figures relate to the number of employed by the end of 1949, if yearly averages are compared the increase amounts to 45 per cent.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

464 units, and the rate at which it could be eliminated was uncertain. As to the scale of industrial employment brought about by the Three-year Plan, it was not unprecedented, for a similar level had been recorded in 1943, though only at the peak of the war-time efforts.

A rise of the labour force in manufactures up to 415,000 (excluding small-scale industry and the whole building trade), together with an additional 70,000 employed in mining, could not be qualified as a new phase of the industrial revolution in face of a total actively engaged population of 4·3 to 4·5 million. 433 Nevertheless the Plan did bring about a change, and a definitive one, in the economic position. Not that it altered the economic structure of the country, for the changes in industrial production were mostly through extensions at existing centres. Besides the re-equipment of a great number of workshops, there were, of course, new factories built. In line with the much boasted self-sufficiency in capital goods, the engineering industry was set the new task of extending the scale of machine-tool production, a section hardly existing previously in view of a restricted [371] market. For an external observer the most conspicuous change in the field of industrial development was perhaps the expansion of power generation. It was raised by 70 per cent in comparison with pre-war production. Besides providing sufficient current for industry, the extension resulted in the inclusion of quite a number of country districts, hitherto without electric current, in the network of supply. Still, the general picture presented by Hungary's economy at the close of the Three-year Plan, in so far as the degree of industrialization was concerned, did not fundamentally differ from that remembered in pre-war times: an agricultural country on its way towards industrialization. The change-over to an industrial community is to be realized by the new Five-year Plan contemplating an industrial labour force exceeding the million mark at the end of 1954. This programme requires the establishment of a great number of new factories. Accordingly it is intended to spread industry over the countryside and also to create new industrial centres.

TRADE RELATIONS

241 An appraisal of trends in external relations appears possible 423 only if viewed against the background of pre-war conditions. In this context changes in agriculture—past and impending—are of consequence.

In replacing large-scale farming by subsistence farming on one-third of the agricultural area, the land reform tended to

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

146 439 labourers. A substantial number of them having been promoted to be smallholders, they were, of course, anxious to improve their diet as soon as the opportunity was given them. As to the urban population its food supplies were on the whole satisfactory during the closing Plan period. It seems probable that a further improvement of real incomes would rather induce a shift towards higher-quality food than an overall increase of food consumption. This consideration suggests that an agricultural surplus, similar in order of magnitude to that in 1949, might be available, necessarily subject from year to year to the fluctuations of crops.

439 433 It is only for a small fraction of the food surplus, which may be estimated on an average at some 100 million U.S. dollars, that the Russian orbit offers a market. Soviet Russia is a buyer of certain quantities of pigs and of some special products like quality seeds. Czechoslovakia offers a market for meat, fats, and feeding stuffs. But the bulk of the agricultural surplus has to be sold in the West. Despite an extremely poor harvest in 1947–8, 24 per cent of total exports were shipped to Western continental countries, and another 17 per cent to Great Britain. These deliveries consisted mainly of food and other agricultural produce. Since imports of Western Europe, in the main groups of food products and fodder from overseas, were round 5,000 million dollars (at 1948 prices) in 1948 as well as in 1949,[1] Hungary's surplus might be easily spread over the area, even if one or the other of the countries concerned, for political reasons, did not favour imports from Hungary.[2] It appears on the other hand most essential for Hungary to dispose of her agricultural surplus. In spite of the growing importance of raw-material supplies from Russia, certain industries like rubber are entirely, cotton mills and other branches of manufactures partly, dependent on supplies from outside the Russian orbit, and must be paid for by exports which earn sterling or dollars, all the more so since the breach with Yugoslavia, which was one of the suppliers of copper and tin. Another point of importance, in view of the vast capital programme in progress, is that proceeds of agricultural exports can partly be used for purchases of equipment in the West.

Notwithstanding the diminishing relative importance of agricultural exports, there are strong grounds for holding that Hungary is still dependent on Western markets. Difficulties of

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948, 1949* (Geneva, 1949, 1950).

[2] The imports of Western Europe from Eastern European countries in the commodity groups in question amounted, according to the E.C.E. *Survey*, to 603 million dollars in 1938 and to 219 million in 1949.

3:Kemeny G-5 (1945-48)1952. EC1 Hungary EC1

selling agricultural surpluses in the West are bound to cause a calamitous dislocation of the Hungarian economy, unless the Soviet Union, for political reasons, should decide to absorb the surpluses. This would leave Russia as the only important market for Hungarian exports. There seems little likelihood, however, of a development which would impose the obligation on the Soviet rulers to deliver equipment and raw materials of primary importance against products which they have not hitherto regarded as indispensable.

Soviet Influence on Trade

No doubt an increasing part of the burden of securing imports of raw materials and equipment to support a rapidly expanding industrial production will be loaded on industry itself. Pre-war Hungary possessed for her limited surpluses of manufactured goods—processed food, textiles, electrical appliances, and equipment—markets in the West as well as in the East of Europe, but not in Russia. The pattern of trade is now entirely altered. The Soviet Union enjoys an unchallenged priority in respect of the products of heavy industry. The same applies to aluminium and oil. In addition Hungarian textile industry is liable to deliver a considerable part of its output to the Soviet Union in exchange for raw materials received. Some fraction of the exports of engineering industry may, of course, reach other markets than Russia, especially those of the satellite States. Yet the essential significance of the change in the economy and, in particular, in the industrial structure of Hungary, is the dominant position accruing to trade with the Soviet Union. Even in the initial stages of its extension under the Three-year Plan, heavy industry fulfilled the double task of (1) re-equipping and enlarging home industry, (2) sending supplies to Russia on account of reparations and under the trade agreement. As soon as reparations were cut, representatives of the Soviet Union stressed their willingness to take over the surplus on a commercial basis, and in October 1948 a special agreement for the delivery of products of heavy industry was concluded. Hungarian Government quarters welcomed this agreement as securing a stable market of vast proportions for the extension of heavy industry.

While the output of heavy industry was substantially extended under the Three-year Plan, it is to be trebled again during the period 1950–4. Meanwhile the need for expansion of industrial plant in Hungary will reach saturation point, and a larger surplus of the output of capital goods will be released for export. The Russian benevolence which has been commended in the

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

433 439 official Hungarian declarations would then probably again intervene. The resulting dependence tends to become the more ominous the more competitive the market for heavy-industry products grows. The expansion of an industry so situated might end in disaster.

439 E48 This veering of trade relations to the East is, in fact, a corollary of the change in the economic structure as well as in political ties. To contribute to the supply of capital goods in the Soviet Union is a task imposed upon Hungary as well as on the other countries bordering on the Soviet Union in the West. The concerted efforts of a group of industrialized countries with a population exceeding 60 million (if Rumania is included) should be of consequence even to an economy of the vast proportions of the Soviet Union.

In principle the new economic structure should improve Hungary's international economic position. The former one-sided dependence on the marketing of agrarian products, in particular of grain, has diminished. Present trends indicate that the relative importance, though not the volume, of farm products will decrease step by step. Under the conditions now prevailing Hungary is able to offer in exchange for imported raw materials and equipment both industrial and agricultural products. A moderately industrialized community is definitely in a favourable position if it is able to rely on its own food supplies. To what extent Hungary will be able to exploit her new position in foreign trade will in general be decided by the question of relative costs, and, in particular, by the terms of trade with Russia.

3:Kemeny G-5 (1945-48)1954 EC1 Hungary EC1

p. 125

CHAPTER XII

CONCLUSION

EFFORTS AND ACHIEVEMENTS

THE Hungarian Three-year Plan was an ambitious scheme for forcing up industrial output and it produced conspicuous results. Reconstruction in industry and transport was accomplished, and, beyond that, industrial capacity in important sectors enlarged. Efforts were made in agriculture to make good in a few years the omissions of previous decades. The training of farmers, the abolition of strip farming, and the application of a series of technical changes were part of a comprehensive development programme calculated to raise yields. In spite of extreme tension in the villages, improvements were effected, though naturally at a slower pace than in industry, and the first slight progress was made in mechanization.

When all the collateral effects of the production drive in industry are taken into consideration, there is room for doubt whether the results achieved are to be accepted at their face value. Hungarian planners set out to force increasing production at all costs. If they failed to realize the reduction in costs of production which they had hoped for, they at any rate found a way towards higher production by making a fuller use of the available resources. They could do so because they were carrying out the Plan in a community where labour was underemployed. They concentrated on one of their targets—the volume of production—while abandoning the realization of the rest. It was possible to draw more heavily on labour reserves than originally intended, and there resulted an unevenness in the execution of the Plan. While production programmes were reached or slightly exceeded, the improvement in the productivity of labour fell short of the estimates. It was not only additional labour that was required, but also capital equipment. The planners claimed at first that the capital programme had been exceeded by some 20 per cent. According to statements in the Final Report of the National Planning Department, the excess overestimates amounted to 25 per cent in investment as a whole, and in industry in particular to 37 per cent. Investment seems to have gone beyond what was required for the level of production which had been planned. Were there perhaps in the later stages investments carried out in preparation for the

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

433 second Plan, that for the years 1950–4? If so over-fulfilment would bear fruit in the future. On the other hand was the excess in investment due to miscalculations? Or was it intended to compensate for the slow progress in labour efficiency? Under democratic institutions such problems would be freely and thoroughly discussed. Under totalitarian rule the fact that investment exceeds the estimates by thousands of millions of forints is recorded with the same monotonous complacency as a rise in current production. But if investment is carried through quite out of proportion to original estimates, without being warranted by an adequate rise in production, it becomes highly questionable whether such a proceeding can be termed economic planning.

Until recently a common feature of planning in the countries of Eastern Europe has been, in contrast with a country with full employment, the prospect of drawing on reserves of labour. In the case of a full utilization of resources the several parts of the plan have to be synchronized, and, if the productivity of labour falls short of requirements, production will fail to reach the target. Under conditions of planning in the East of Europe the statistical returns of production may appear highly satisfactory, yet, in proportion to the labour force and the capital equipment employed, they represent results far short of successful planning.

511 465 The original aims of the Plan, officially confirmed later on, were:

(1) To reconstruct and re-equip Hungarian economy;
(2) To raise standards of living.

The first objective has been achieved. As to the second it may be questioned whether the increase in well-being was proportionate to the efforts made. The concrete programme of the Plan in the field of consumption was slightly to improve upon pre-war standards. By the end it was claimed (yet not proved) that the real earnings of the workers would be 40 per cent above pre-war level. This claim can be dismissed. Only by neglecting the impact of the black market on the cost of living could it be maintained that pre-war standards were reached as soon as mid-1948. As only average wage-rates for the whole of manufacturing industry were released, the lack of detailed information in a period of changing wage structure obscured the real position. The gap between the lower and better-paid categories of worker, which had previously been quite substantial in Hungary, was narrowed. Extremely low pre-war wage-rates, like those in the textile industry, were improved. On the other hand groups, such as that of the printers, which had formerly been very favourably placed, found themselves nearer the average.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

change of commodities can be continued even though not justified by comparative costs.

At the beginning of 1949, when the Advisory Council for Mutual Aid was established in Moscow, it was believed in some quarters that the Council would form a nucleus for supernational planning. It did not go so far.[1] The second Hungarian Plan, like the first, is a national plan, in the sense that it has not been integrated into a more comprehensive regional system, aiming at co-ordination of industrial expansion, but has been limited to the development of national industries. Though both Plans were national in their technical character, it is not to be inferred that they were truly national, in the sense of serving as far as possible the real interests of the Hungarian people.

If any central conception has been shared by the Eastern plans it has been the rapid development of heavy industry. The Hungarian planners followed this line faithfully. Within the Three-year Plan some 80 per cent of industrial (or 25 per cent of total) investment served the expansion of the capital-goods industries. Engineering and the generation of power were the main objects of this development. The capacity for producing iron and steel, which forms the basis of heavy industry, was not extended under the Three-year Plan. The existing works were producing at capacity. For their iron-ore supplies they had to rely to the extent of at least 60 per cent on material brought from abroad, some of it from afar. Requirements of metallurgical coke had to be met up to 80 per cent by imports. During the inter-war period Czechoslovakia and Yugoslavia had been the main ore suppliers. When deliveries from Yugoslavia fell off, the Soviet Union stepped in as an important source of iron ore. Following the war, it was Russia again that provided coke, which had previously been mostly drawn from Silesia. All this points to the conclusion that the location of the Hungarian blast furnaces is far from satisfactory, as the bulky materials they need have to be transported by rail over great distances. High production costs are reflected in the prices of steel products, as is shown by the following comparison

[1] It is noteworthy that co-operation in limited fields with Poland and Czechoslovakia had been initiated prior to the erection of the Council for Mutual Aid. Negotiations were carried on on a bilateral basis before and after the formation of the Moscow Council. Moreover, a Hungarian-Polish Committee for Economic Co-operation had been established with a view to co-ordinating the plans. This latter met frequently and, besides points of minor importance, dealt with the division of labour to be carried through in some of the light industries of the participant countries. To what extent these major objectives have been realized is not clear. On the whole, deliberations went on in that specific atmosphere of international committees, taking technical decisions only. Characteristically enough the issue of a division of labour in the heavy industries has never figured on the agenda.

3:Kemeny G-5 (1945-48)1951 EC1 Hungary EC1

433 [435] of Hungarian official prices, calculated in sterling at official rates, with quotations in Great Britain.

	Hungarian Price	*British Price*	*Difference in percentage*
	Mid-1948		
	£ s. d.	£ s. d.	
Mild steel sections per ton	32 10 0	19 10 0	66
Mild steel sheets 28/m per ton	44 10 0	29 10 0	50
Gas pipes 1 in. per meter	3 2	1 6	111
Vacuum "B B" oil per kg.	3 5	1 3	173

[328] The considerable extension of aluminium production provides another example of the uneconomic use of resources. Though domestic supplies of bauxite are ample, the cost of processing aluminium is, in the absence of cheap hydro-electric power, extremely high. It is indicative of the high cost of production that the price generally charged for aluminium in Hungary was three times that in Great Britain, while even a special reduced price was double.

[327] Steel production is to be almost trebled under the revised second Plan. The erection of new iron and steel works on the Danube is in progress. The bituminous coal mined in Hungary was, until recently, not suitable for producing foundry coke. A new process is believed to achieve technically satisfactory results. But according to a calculation of cost drawn up in the Ministry of Industry, it is much too expensive. For iron-ore supplies, the new works will be entirely dependent on Russia, at least so long as deliveries from Yugoslavia are out of the question. Ores mined in the Krivoi Rog district will be shipped via the Black Sea and the Danube. Thus the Hungarian iron and steel industry will be linked by double ties to Russian economy, the latter providing the raw materials as well as the market for the products. Under this aspect the new iron works on the Danube appear to be an extended arm of Russian heavy industry. This expansion was conceived in the spirit of a war effort as opposed to economic planning. Economic considerations would not have allowed such a disregard of cost.

PLANNING AND THE SCALE OF NATIONALIZATION

000 Experience in Hungary has not contributed to settle the controversial issue whether effective planning could be based on a system of mixed economy or only on one of full-scale nationalization of industry. During the short-lived first phase of the Three-year Plan the impulse it imparted to production and investment was, no doubt, successful. The evidence did not substantiate Communist charges of sabotage during this period,

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

balanced progress of all components of the Plan. It is under these conditions that the realization of programmes of production would provide a genuine test for successful planning.

In the course of this study the question has been repeatedly raised what part of the expansion recorded is to be credited to the impetus given by the Plan. It is evident that to a certain, though unascertainable, extent a resurgence of economic forces, supported by a revival of foreign trade and improved nutrition, would have almost automatically materialized. But the Plan reinforced the upward trend by maintaining and steadily extending effective demand. In doing this the Plan imparted a specific turn to developments in Hungary by giving high priority to the production of capital goods. This is just the point open to criticism. Was it not the pace of investment dictated by the Plan that prevented the attainment of a level of consumption adequate to the efforts made? This argument, of course, has some substance, though a mechanical interpretation of the inter-connexion of investment and consumption level is to be avoided. It should not be forgotten that, under the conditions prevailing in post-war Hungary, considerable capital expenditure for reconstruction and re-equipment was a prerequisite for extending production. Given the privation of the early post-war years and the limited propensity to save in Hungary, it would have been futile, even with foreign aid, to expect adequate resources for investment from efforts on individualistic lines. This consideration constitutes a weighty argument for the planning of investment and reconstruction, though not on precisely the model of the Hungarian Three-year Plan.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

p 133

APPENDIX

804

Table of Conversion

1 kilogramme	=	2·205 lb.
1 quintal	=	220·5 lb.
1 metric ton	=	0·984 ton
1 metre	=	1·094 yard
1 kilometre	=	0·621 mile
1 cadastral yoke*	=	5,754·6 sq. metre
	=	1·42 acre
1 hectare	=	2·471 acre
1 sq. kilometre	=	0·386 sq. mile

* Cadastral yoke is the unit used in official publications; the farmers employ another yoke equal to 0·75 cad. yoke. In this study yoke refers throughout to cad. yoke.

In connexion with crops and agriculture, 1945–6, 1946–7, etc., denote periods from 1 July to 30 June. The crop 1946–7 means the one sown in 1946 and 1947, while reaped in the course of 1947.

The forint is reckoned at 50 to £1, being approximately the rate prevailing before the devaluation of sterling in September 1949 (47·31). 436

Table I

Production

Agriculture

433 [241]

	1934–8	*1945–6*	*1946–7*	*1947–8*	*1948–9**
Sown area (1,000 yoke)	9,526	9,060	9,350	9,460	9,494
Reaped area (1,000 yoke)	9,400	8,440	8,900	—	—
Main Crops (in million quintal)					
Wheat	22·2	11·3	12·6	15·8	—
Rye	7·0	4·2	5·6	7·2	—
Barley	6·1	4·4	4·0	7·1	—
Maize	23·0	13·6	17·8	29·6	—
Potatoes	21·3	11·4	14·6	23·3	—
Sugar-beet	9·6	5·2	11·6	15·9	—
Livestock (1,000 head)					
Cattle	1,882†	1,007	1,223	1,841	2,004
Pigs	3,110†	1,152	1,717	2,792	2,820
Horses	814†	370	424	575	657
Sheep	1,629†	313	397	570	593

* Figures on crops not published.
† 1937–8.

Mining, Manufacturing Industry

Yearly output	*1938*	*1946–7*	*1947–8*	*1949*
Coal (1,000 ton)	9,360	7,750	9,860	11,500
Bauxite (1,000 ton)	470	250	400	—
Crude oil (1,000 ton)	43	640	500	—
Natural gas (1,000 cu. metre)	8,100	—	205,000	—
Iron ore (1,000 ton)	370	210	260	—
Steel (1,000 ton)	647	510	720	806
Cotton piece-goods (1,000 metre)	—	91,500	—	160,000
Woollen cloth (1,000 metre)	—	9,300	—	25,000

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

454
652

Building	*Million forint*	*Per cent of Programme*
Urban housing	111·7	144·9
Hospitals and other social service buildings	117·0	143·5
Schools and scientific institutions	55·3	113·0
Administrative buildings for general and local authorities*	184·7	772·9
Total	468·7	199·2

* Including aqueducts and sewage installations.

433

TABLE IX

1947–8 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PLAN AT JANUARY 1947 PRICES

	Million Forint	*Per cent of Programme*
Total Mining	754·1	106·4
Steel (unmanufactured)	373·8	108·9
Total Manufactures	12,468·4	104·5
Iron, non-ferrous and engineering	3,455·7	123·3
Electricity generation	680·5	120·9
Chemicals	1,260·1	109·3
Textiles	2,319·7	95·2
Food industries	2,865·1	86·8
Other industries	1,887·2	112·5

TABLE X

1949 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PRE-WAR

(1938 = 100)

Iron ore	114	Bicycles	283
Bauxite	104	Motor bicycles	728
Coal	127	Electric power	168
Crude oil	1,169	Cement	162
Steel	131	Sheet glass	244
Aluminium	1,110	Phosphate fertilizers	208
Machine tools	3,040	Nitrate fertilizers	182
Railway waggons	320	Vegetable oils	182
Locomotives	822	Cotton fabric	119
Lorries	190	Woollen cloth	125
Tractors	470	Footwear	122
Agricultural machines	332		

(d) the fostering of agricultural production and the improving of marketing organization;

(e) improving technical instruction in agriculture;

(f) resettlement of some of the landless agricultural population;

(g) improving rural housing, health, and social services.

No detailed and comprehensive plan was drawn up and no special machinery was created to coordinate and control the plans prepared by individual government departments and agencies which usually meant the extension of their routine activities and the speeding up of the execution of projects already undertaken. It was not until 1940 that the Minister of Finance became officially the coordinator of the government's economic policy and that a Supreme Economic Council was set up, an advisory body, including, besides the heads of government departments and agencies, the under-secretaries, the assistant secretaries and the leaders of special interest groups.

The lack of a detailed plan makes it difficult to evaluate the measure of achievement and success. The exigencies created by the territorial changes of 1939-1941 and the war distorted even the faint outlines of an overall plan that could at first be discerned. This, however, is not to say that the effects of the investment program could not be felt, especially as it assumed much greater proportions than was originally intended.

Due partly to the 84 percent increase in territory and the 58 percent increase in population, partly to the pressure of war time needs, and partly to rising prices, the scope of the investment program was repeatedly extended. In two and a half years, 1.65 billion pengoes were spent and a revision of the program brought the total to be invested first to 2.6 billion pengoes, and by another revision at the end of 1943, to 4.5 billion pengoes. The capital levy which was to cover 600 million out of the original 1 billion pengoes and was to be levied in five years was all collected by the end of 1940 and new taxes and loans had to be resorted to in order to provide the additional funds required. In spite of the liquidity created by an inflationary boom, in an increasing measure the Bank of Issue became responsible for financing the scheme.

The effects of government spending were felt first of all in heavy industry. A number of plants were built which considerably increased industrial capacity. Still more would have been accomplished had the war, which reached Hungarian territory in 1944, not stopped construction work and had it not brought

destruction. The power, aluminum, heavy chemicals, rayon and oil industries owed some of their best and largest plants to the program. The achievements of the postwar Three Year Plan, and to some extent even those of the First Five Year Plan, rest on the foundations laid by the prewar Billion Pengoe Investment Program. The extent of industrialization can best be measured by the number of factory workers which increased from 289,000 in 1938 to 392,000 in 1943. By comparison, the total increase in the 1925-1938 period was from 199,000 to 289,000.

Parallel with the program of industrialization there was significant social progress, some of it financed out of funds provided by the government under the plan and some of it out of the profits of industry running in full gear as a result of government spending. Health services in rural areas were improved. State-sponsored cooperatives were started to cope with rural under-employment and the rehabilitation of peasants owning less than subsistence farms, so called "dwarf-holders." The limit, which was somewhat arbitrary, was 2.9 hectares. Paid holidays and family allowances were introduced for industrial workers, wage boards were set up to fix minimum wages both in industry and agriculture, and some progress was made in the resettlement of the landless agricultural population.

investments in agriculture, the building of an estimated 120,000 cottages, mostly out of private funds, and the electrification of 600 villages are cited, besides the reconstruction of a large fertilizer and explosives works, the enlargement of a big tractor and armored car plant, etc.

A rather surprising achievement was the great increase in the area of the state-owned estates to 312,000 hectares from 151,000 hectares in 1938. In addition, 213,000 hectares were farmed by collectives. As all the forests became state property in 1945 and the state also owned fisheries and other agricultural property, the total "collective" sector in agriculture covered 1.5 million hectares—18 percent of the total acreage and 7 percent of the acreage under crops.

Mining and Metallurgy

The plan aimed at raising the value of the gross output of mining and metallurgy from 1.1 billion forints in 1946-47 to 1.2 billion in the first year and 1.5 billion in the third when a level 38 percent above prewar was to be reached. The prewar output was 1.2 billion forints. As there had been considerable development in the years 1938-44, and the gross output may have been near the 2.0 billion mark in 1944, the mark set was somewhat lower than the level that had been reached.

The goals looked more formidable when compared with the output in 1946-47, although recovery in mining, especially coal, had been fairly quick. They are set out in the following table:

Output, million tons

	Planned		Actual		
	1949-50	1947-48	1946-47	1948	(1943)
Coal	11.60	9.30	7.75	9.34	(12.70)
Iron ore	0.28	0.21	0.21	0.30	(0.34)
Bauxite	0.40	0.22	0.25	0.54	(1.00)
Oil	0.66	0.54[20]	0.64	0.04	(0.84)

For the development of the mining industry, 493 million forints were earmarked. This sum was to be used for the reconditioning of existing mines, some mechanization of coal mining, the developing of new pits, and the building of two flotation plants to utilize low-grade ores.

20. Oil production was forced during the war under German pressure and was maintained at a high level under Russian management in 1945-47. It had to be reduced in order to prevent the untimely exhaustion of the wells.

In the first year the budgeted sum was exceeded by 15 percent, but no information is available concerning the final sum spent. In the Final Report, no separate figures are given for mining which is lumped together with heavy industry. It was claimed that seven new pits had been opened; progress had been made with mechanization and two flotation plants had been built to utilize low-grade ores.[21]

Production in the first year increased considerably and, except for oil, exceeded the aims set, especially in manganese ore. The output of coal reached 9.9 million tons, iron ore 258,000 tons, bauxite 400,000 tons, and oil 496,000 tons. For 1948 only percentages are available. Translated into quantities, production appears to have reached 11.8 million tons in coal, 339,000 tons in iron ore, 561,000 tons in bauxite, and 503,000 tons in oil. Compared with the targets set for 1949-50, the output of iron ore and bauxite were considerably higher than originally planned, the output of coal was slightly higher, while oil was 24 percent less.[22]

According to the text of the plan, metallurgy ranked second only to mining in importance. The aim was to raise the production of pig iron from 258,000 tons in 1946-47 to 360,000 tons in the first year and to 420,000 tons in the third; steel production from 510,000 tons to 660,000 tons, and 800,000 tons respectively. Production in 1938 amounted to 335,000 tons in pig iron and 647,000 tons in steel and reached 417,000 and 776,000 tons respectively in 1943. Besides increasing output, efficiency of production was to be improved through the reconditioning and modernizing of the plants, undertaking the production of ferromanganese and resuming the production of ferrosilica.[23]

Investments in metallurgy were to total 26 million forints in the first year and 58 million forints in three years. In addition, 20 million forints were to be invested in aluminum metallurgy and 166 million in the processing of bauxite.[24]

It was aimed to raise aluminum production from 3,700 tons in 1946-47 to 5,000 tons in the first year and 12,000 tons in the

21. One in Ozd for iron ore and one in Diosgyoer for manganese.

22. For volume of aggregate output see Tables IV, Va and Vb in the Appendix.

23. Before the war Hungary exported low-grade manganese ore and imported ferromanganese. The ferrosilica plant (Zagyvarona) was destroyed during the war.

24. Investments in metallurgy are scattered under various sections. Iron metallurgy is a section by itself, aluminum metallurgy appears under the iron and metal industry, the processing of bauxite into aluminum oxide under the chemical industry.

third. Prewar production was only 1,500 tons, but by 1943 it had increased to 7,900 tons. To achieve the increase in production, the two plants producing aluminum oxide were to be enlarged and a third large plant constructed, the largest single project of the Three Year Plan, the cost of which was estimated at 150 million forints.[25]

Reports on the plan claimed that the furnace for the production of ferromanganese was completed in the first year and that the ferrosilica plant had been reconstructed with a capacity of 2,200 tons.[26] The two aluminum oxide plants had been enlarged but were not used to full capacity. No reference was made to the third large aluminum oxide plant planned.[27]

Production developed, on the whole, as planned, in spite of minor setbacks in the first year when production of pig iron was 343,000 tons, slightly less than planned. But steel was above the goal with 719,000 tons. In 1949 on the basis of the percentages given, production appears to have been much higher than originally planned for 1949-1950. Output of pig iron was reported at 428,000 tons, of steel at 890,000 tons, and of aluminum at 14,000 tons.

Power

Power, a continuing bottleneck, became an even more serious one after the war, due to war damage and the dismantling for reparations of some of the most efficient modern power plants and of a large 128,000 KW plant constructed but not completed during the war. At the cost of 200 million forints, a number of less efficient plants were to be reconditioned, the dismantled plants rebuilt, including part of the 128,000 KW plant, and the output of power was to be increased in three years to 2.0 billion KW hours, 43 percent above the 1938 output of 1.4 billion KW hours. Here again reference to 1938 gives a misleading picture because output reached 2.1 billion KW hours in 1943.

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25. Construction of the plant was started in Almasfuezitoe in 1941, but the work had not been completed by 1944, and there was also war damage through Allied bombing. Originally earmarked for dismantling for reparations, the plant was finally left in Hungary, became Russian property under the Potsdam Agreement and as a Soviet asset was turned over to the Soviet-Hungarian Aluminum and Bauxite Company set up in 1946.

26. The ferromanganese furnace is in Diosgyoer, the ferrosilica plant (capacity 5,000 tons) in Zagyvarona.

27. The two plants are in Ajka and in Magyarovar. The third is in Almasfuezitoe.

In the first year work was started on two of the most important plants mentioned in the blueprint and it was expected that they would be put into commission in 1949.[28] The Final Report claimed that both had been completed. In addition one power plant was enlarged and five were reconditioned.[29] Altogether 47,000 KW have been added to the capacity of the power plants, which in 1946 totaled 1.1 million KW. In addition, work was started on two other plants, one using natural gas and the other low-grade coal.[30]

Costs were greater than expected and in the first year the budgeted figure was exceeded by 186 percent. There is no information concerning the final figure.

Output of power was 1.9 billion KW hours in the first year against the planned 1.6 billion KW hours, and was claimed to have reached 2.2 billion KW hours in 1949, exceeding the goal set for 1949-50 by 20 percent.[31]

Manufacturing Industry

The gross output of manufacturing industry, excluding power, was to be raised to 11.4 billion forints in the first year and to 16.5 billions in the third, against 13.1 billion forints in 1938 and 7.5 billions in 1946-47. For individual industries the planned increases ranged from 3 percent in leather to 64 percent in engineering. Wartime development had been concentrated in the iron and metal industries and in engineering where, under the pressure of reparations, the rate of reconstruction had also been the quickest. As a result, relative to the level reached in 1946-47, the planned increases became markedly different from those relative to the level in 1938. They ranged from 8 percent (chemicals) to 143 percent (clothing industry). In the iron and metal industries and engineering the required increase was 30 percent. In the light of capacity and level of production in 1938 and 1943 and the capacity available in mid-1947, the aims did not seem unattainable, provided the flow of raw materials could be assured and individual output improved.

In the first year manufacturing industry exceeded its global goal by 4 percent. Results for individual industries were below the planned figure in textiles, clothing and the food processing industries. All the others exceeded their aim by 7-56 percent. Heavy industry had an excess of 23 percent to its credit.

28. Mátravidéki in Loerinci and Csepel.

29. Diosgyoer, Komlo, Salgotarjan, Debrecen, Kecskemet, Satoraljaujhely.

30. Lovaszi and Varpalota.

31. For changes in volume of output, see Tables IV, Va and Vb.

185 X 433

In 1949 production, including power, is claimed to have passed the goal set originally for 1949-50 by 21 percent. Thus the value of industrial production at January 1947 prices must have been 20.8 billion forints, against the expected 17.2 billions, 52 percent higher than in 1938, when only a 27 percent higher output was planned. Leather was the only industry where the output was below that of 1938 by 12 percent. In the others the excess ranged from 11 percent (textiles) to 112 percent (engineering). The figures reveal a shift in production from consumer goods to construction goods, but not without the loss in quality which accompanied the drive for high physical output and was the subject of numerous complaints. The output claimed is decidedly very high but not improbably so. Available published sources do not contain enough detailed information for checking it.[32]

185 X 454

The original investment program in the manufacturing industry, excluding power, totaled 944 million forints for the full period. The items classed under agriculture meant some additional 200 million forints. Of this total 456 million forints, or, with the appropriate addition, about 500 million forints were to be spent in the first year.

In the first year industrial investments exceeded the budgeted sum by over 52 percent. The chemical industry was the only one where the budgeted figure was not reached. The excess was not uniform and ranged from 9 percent (paper) to 220 percent (food). In the most important group, in the iron and metal industry and in engineering, the excess was 24 percent.

The final figure for the whole 29 months was over 3.0 billion forints, more than three times higher than that budgeted in spite of the shorter period. The volume of investments was claimed to have been 37 percent greater than planned.[33]

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32. Tables IV, Va, and Vb give the volume of output of the principal industries, and Table VI the physical output of the principal products computed on the assumption that the percentages given in the Final Report and the other sources used were based on constant prices or physical output. ?/1

33. The blueprint, the First Year Report and the Final Report of the Three Year Plan are not consistent in classification and detail. Mining, metallurgy and power are not always separately given. The 3.25 billion forints given in the Final Report as industrial investments include mining, metallurgy and power, but do not include those investments in agriculture which ought to have come under the manufacturing industry. The 3.0 billion forints given above is a rough estimate. Originally it was to be about 1.7 billion forints.

?/1 [see cat. 116, pp 70-72 — Analyst]

The Standard of Living

According to the blueprint, the volume of goods available for consumption, the measure of the general standard of living, was to be 29 percent greater in the first year of the plan, and 77 percent greater in the third year than in 1946-47. Relative to prewar standards, the increases were to result in a standard of 76 percent in the first, 90 percent in the second and 104 percent in the third year. In 1946-47 the volume of goods available for consumption was given as 66 percent of prewar.

It was claimed that a level corresponding to 86 percent of prewar was reached in the first year and that in 1949 the level surpassed that of prewar by 37 percent. Thus, relative to 1946-47, the increase was 30 percent in the first year and 108 percent in the period as a whole.[41] Due to the radical redistribution of incomes, the improvement in the standard of living of the workers was even greater. Real wages in the manufacturing industry were claimed to have been 40 percent above the 1938 level.

A careful study of available data showed that the national income figures were overestimates:[1] first, through not accounting properly for depreciation and through some rather optimistic assumptions concerning the efficiency of production; second, through not accounting for the accumulation of stocks which must have been considerable. On the first count, the estimates have to be decreased by up to 5 percent. Accounting for the accumulation of stocks requires an even greater reduction in the volume of goods available for consumption.

According to the First Year Report, in 1947-48 the volume of goods available for consumption was 13.9 billion forints against 16.3 billions in 1938. Of this, 440 millions were the result of the adverse balance of trade, an unexpected development. After the adjustments for the optimistic assumptions in estimating the national income and deducting 1.0 billion forints for the increase in inventories (which is only half of the increase

41. A comparison between the blueprint and the First Year Report, the Final Report and various official pronouncements is difficult because, as it was pointed out above, the blueprint and the reports operate with a different concept of the national income and also because, due to some adjustments, they use different figures for 1946-47. The national income and the volume of goods available for consumption as given in the report are somewhat smaller than in the blueprint. Thus the 1946-47 level relative to prewar and the increases relative to 1946-47 become different. The percentages quoted in the text have been adjusted to make them conform with those given in the reports.

1 [Cf. category 116, pp. 13-16, Analyst]

185 X
511
433

calculated as necessary in the Social Democratic plan), the volume is reduced to 12.1 billions. Although still an appreciable improvement over 1946-47, this allowed a standard of living about 72 percent of prewar in the best case and conformed more with general everyday experience than the figure claimed.

A check on the 1949 figure is more difficult because the details of the calculation are not known. Working with the estimates of the blueprint, the volume of goods available for consumption appears to have been 18.9 billion forints at the utmost. Knocking off 5 percent for overestimating the national income and deducting 1.5 billion forints for the increase in inventories, which is still much lower than the amount given in the Social Democratic plan, the volume of goods becomes 16.1 billion forints. While 16 percent above the 1947-48 volume, this is slightly below prewar.[42]

However, the increase in the volume of goods relative to prewar is, by itself, misleading as an indicator of improvement in the general standard of living. Due to the great emphasis on heavy industry, a very much larger proportion of total output consisted of construction goods than had been the case before the war and had thus no immediate effect on the standard of living of the population. As there are reasons to believe that some of the construction goods were not construction goods in the ordinary sense, but were intended to increase the defensive powers of the country, their effect on the standard of living is even more questionable.

But even assuming that the character of output had not changed, any increase in the volume of goods available for consumption could still be felt as an appreciable improvement — provided it was more or less uniformly distributed — in comparison with the great misery of the first two postwar years. It is undeniable that the excessively large incomes of prewar Hungary had been eliminated and that the redistribution of the national income in itself enabled the authorities to improve the lot of some groups. But, at the same time, new inequalities were introduced, even if of a smaller order. It was officially stated that the number of new recruits in the administration was 20,000. If the party hierarchy is added, the figure becomes considerably greater. These people improved their standards considerably by changing their

185 X
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565

42. According to preliminary calculation of the National Planning Office at the end of 1948, it was 17.2 billion forints; their estimate of the increase in inventories in 1949 was 0.9 billion forints. True consumption would thus appear to be 16.3 billion forints at January 1947 prices.

The principal figures are summarized in Table VII in the Appendix.

status: climbing into the administrative grade from that of the factory worker or the low clerical grade. There is a third, even more important group which enjoys a privileged position, the police force, which is very much better paid than the smaller police force of the prewar days. Apart from those privileged groups, the mass of the workers did not receive uniform treatment. The miners, however, enjoyed especially privileged treatment, while the shock workers of all trades comprised still another privileged group. To these must be added a large proportion of the new owners of subsistence farms, about half a million without dependents, who proved to be successful small farmers, and who now enjoy a higher standard of living than they did before the war. All these favoured groups add up to something like one seventh to one eighth of the gainfully employed population. The rest have to be content with what remains of the national production. When collectivization is achieved, the rise of the favoured groups will be considerably smaller.

The official claims of a great and general improvement in the standard of living appear somewhat suspicious in the light of the pronouncements themselves, which do not fail to pay tribute to the great and enduring effort and sacrifice of the people who made possible the execution of the Three Year Plan. If the general standard of living really doubled in two and a half years, surpassing the prewar standard by 37 percent in 1949, and the increase was accompanied, as asserted, by an improvement in general working conditions, enduring sacrifice would not have been necessary.

Appraisal

On the whole, the high rate of recovery characteristic of Hungary since the war was maintained under the Three Year Plan and the national income reached a level exceeding the prewar figure by about 10-20 percent. Industrial expansion in 1938-1944 provided increased potentialities and, in spite of war damage, activity in the first two postwar years provided a good start. But the achievements required very great efforts and sacrifice and were not accompanied by a similar increase in the volume of goods available for consumption.

The increase in production was more the result of the production drive than the investment program, the effects of which could not be immediately felt. In the production drive, incentives in the form of differential wage rates and social recognition were applied, together with an elaborate system of control

THE FIRST HUNGARIAN FIVE YEAR PLAN 1950 - 1954 51

The national grid will be extended and 850 km. of high-tension cables will be added to the existing 8,200 km.[13]

185 X
371

Manufacturing Industry[14]

In the fifteen years of 1925-1939, the gross output of the manufacturing industry increased by about 70 percent. Industrial output in 1954 is planned to be twice as high as in 1949. Since the level of industrial production in 1949 was claimed to have been around 50 percent above prewar level, the planned rise will result in output nearly three times as great.

185 X
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The increase will be very unevenly spread. It will be much greater in the heavy industries than in the light industries.[15]

Within heavy industry, the development of engineering and especially the production of machine tools will be speeded up. The output of the latter is planned to be nearly 233 percent higher in 1954 than in 1949 when it was given as 185 million forints at January 1947 prices. It is intended to undertake the production of new items: diesel tractors, combines, corn-harvesting machines, road-building machines, mining machinery, automatic looms, trolley busses. Mass production methods will be introduced and greater specialization achieved.

Investments in heavy industry are budgeted at 4.2 billion forints. A number of new plants will be built, including a high grade steel plant, foundries, machine tool works, plants to manufacture machinery for flour mills, textile machinery, oil pumps, diesel engines, heavy and light iron constructions, etc. Some of these plants will be built on the Danube, others in the northeast, already a center of heavy industry.

[457]

The output of mass-produced iron goods (nails, screws, agricultural implements, household goods, etc.), that of instruments, appliances, electrical machinery and appliances will be increased by 101 percent over 1949 and will reach 3.8 billion forints in 1954.

The plan provided 0.9 billion forints for investments. Some new plants are planned to produce kripton gas, telephone and wireless appliances.

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13. Their length was 8,105 km. in 1946. The most important line in construction, connecting the new Mátravidéki power plant with Budapest, may have been completed by 1949 and brought into total length to about 8,200 km.

14. Available figures are summarized in Tables III, IV, Va and Vb in the Appendix. For physical output of two principal products, see Table VII.

15. In the terminology now used in Hungary, heavy industry includes mining, metallurgy, the iron and metal industry, engineering, power, clay-brick-earthenware manufacture, glass and chemicals. In this paper the phrase is used in its ordinary sense, unless stated otherwise.

185 X 433

According to the plan, next in importance to heavy engineering is the chemical industry. Its output will be increased by 38 percent over the 1949 figure. The 1954 output is given as 4.8 billion forints. Its greatest task will be to solve the problem of coking Hungarian coal for use in iron production. The goal is to have 450,000 tons of high grade coke by 1954.

Among the light industries, the textile industry will have an output of 9.3 billion forints, 52 percent greater than in 1949 and, at the cost of 1.1 billion forints, will have its plants modernized and some new plants added.

The clothing industry will replace the small craftsmen who had hitherto supplied most of the clothing worn in Hungary. Twelve new plants will be built at the cost of 2.6 billion forints and the output of the industry will be 2.6 billion forints, an increase of 150 percent over 1949.

Total investments in the manufacturing industry proper, excluding mining and metallurgy, will be 11.3 billion forints. Altogether 220 new plants will be built besides modernizing some of the existing plants. The new plants will be scattered all over the country to promote the decentralization of industry and bring industry to districts which now depend mainly on agriculture. The new plants include the following:

Iron metal and engineering	35 plants
Chemical industry	38 "
Textiles and clothing	20 "
Leather and shoe manufacture	2 "
Woodworking	9 "
Paper manufacture	3 "
Food industry	71 "
Clay, bricks, earthenware	29 "

Building

185 X [653]

The estimated cost of construction of all kinds is 21.3 billion forints. Of this, 5.9 represents the cost of industrial construction, 4.5 billion will go into transportation, 3.4 billion forints are allotted to construction which will serve agriculture, 2.0 billions are earmarked for the construction of public buildings and 5.0 billions are to go to finance housing schemes. It is intended to build 180,000 apartments. As private building has practically stopped, at any rate in urban areas, the 5.0 billion forints represent the total investment in housing. Before the war (1924-25 to 1936-37), investment in housing averaged about 140 million pengoes per year at 1924-25 to 1926-27 prices. Data for an accurate comparison are lacking. Available

[362]

Standard of Living

In introducing the First Five Year Plan, it was stated that the overall rise in the standard of living relative to 1949 will be 35 percent. This represents a considerable reduction against the rises assumed in the preliminary calculations which ranged between 54 and 65 percent. The planned increase would bring the per capita level to 85 percent above prewar. The aggregate volume of goods available for consumption will be 40 percent greater. The increase of the population pulls the per capita figure down to 35 percent.

The increase in food consumption would be on the same level as the overall increase, that is, 35 percent. Meat, fat, sugar, milk and milk products were cited as specific cases where larger increases would be attained. The consumption of manufactured goods will increase at a faster rate. The specific instances cited were cotton fabrics with an increase of 40 percent, woolen fabrics with 51 percent, leather shoes and boots with 95 percent and rubber boots with 81 percent.

An important factor in improving the standard of living will be the improvement in housing and social services, including schools. The schools were overcrowded and the educational reform of 1945 swelled the number of pupils.

The crucial test of the rise in the overall standard of living is the increase in the volume of goods available for consumption. Available information is scanty and in the absence of more detailed data only guarded guesses can be made, especially as even the starting point, the standard of living in 1949, cannot be measured with a fair degree of accuracy.

Considering the potentialities and present levels of productivity in Hungary, an increase in the national income of 63 percent in five years cannot be ruled out as illusory, although it would require very great effort and very efficient direction and control. As the level of productivity in 1949 was considerably greater than it had been when the Three Year Plan was launched, a relatively small additional increase required far greater skill and effort. If it is achieved, the investment program, as planned, would not in itself rule out an increase of 30-40 percent in the volume of goods. However, while the investment program can be planned in great detail and can be executed with rigorous adherence to plans, the size of the national income and with it the volume of goods available for consumption, are predictions subject to a wide margin of error. Agriculture is still the largest single industry of the country and the food supply, the basic factor in the standard of living, is subject to the vagaries

185 X 433 of the weather. The planned collectivization of agriculture and the peasants' reaction to it introduce additional uncertainty in predicting the size of output, that is, the food supply.

More important still, the First Five Year Plan lays even greater emphasis on the development of heavy industry, heavy chemicals, etc., than does the Three Year Plan. Defense is now one of the declared aims of the plan; it did not figure previously. In consequence, part of the goods available for consumption are of no use to the ordinary consumer and are not construction goods either.

X 185 Appraisal

In its principles the First Hungarian Five Year Plan bears close resemblance to the Soviet and other Soviet-inspired plans. Ruling out "capitalist loans," it requires heavy investments through self-financing for quick industrialization; it looks upon heavy industry, notably engineering, as the driving force of economic development; it rules out individual initiative except to promote the set goals of the plan, just as it ignores individual tastes in producing consumer goods of a utilitarian type. It makes earnings depend closely on output and provides an important part of total earnings in the form of "payments in kind."

The Three Year Plan had been used for the building up of an administrative machine for working out the details and controlling the successful execution of overall economic plans. At the same time it has led to the accumulation of considerable experience, utilized, no doubt, promptly and certainly extensively in drawing up the First Five Year Plan. The personnel, some of whom had not been accustomed to administrative work, were able to gain experience. These two factors are great assets in the execution of the First Five Year Plan.

The aims of the plan were given partly with reference to output in 1949, partly in values based on "plan prices" about which nothing was directly known. As detailed data concerning production, productivity, etc., at the end of 1949 are lacking at the moment and as checking the data that are available is very difficult, an accurate appraisal of the goals of the plan is greatly handicapped. The rates of increase per year on the whole are smaller than those in the Three Year Plan indicating that, having reached the prewar level, further progress is more difficult.

185 X 433 Considering the resources and the efficiency level of Hungary, an increase in the national income by 10 percent per annum in a period of five years, although very ambitious, may be impossible. The expected increase in the output of mining and manufacturing of 60 and 86 percent respectively can be regarded as

realistic. However, it is questionable that the great emphasis on heavy industry is justified or wise. Resources are meager and both iron and coal are of an inferior quality which will be reflected in higher production costs.

An increase in the output of agriculture by 50 percent over the 1949 level is in itself realistic but it is questionable whether it can be achieved in five years. Yields very much greater than those cited in the plan had been achieved in Hungary on well-run estates without extraordinary efforts. The disorganization of farming after the war was not conducive to an increase in per unit yields and made their attainment more difficult. The planned reorganization of the farming industry, the restoration of the larger units with increased specialization, may restore some of the conditions of higher output. However, the resistance of the peasantry to collectivization may easily offset any gains.

It can, perhaps, be safely said that the human factor is in general the decisive one in the execution of the plan. Hungary does not possess great untapped natural resources, the exploitation of which promises quick results, and industrialization had made considerable progress in the interwar period. For these reasons industrialization in Hungary, after reaching the prewar level, cannot be accompanied by the same quick results in increases of productivity and national income as in such underdeveloped countries as the Soviet Union. To achieve similar rates of increase in production, countries like Hungary require relatively greater investments, greater improvements in industrial organization and more intensive work. It is questionable that the Soviet Union can offer guidance and example in these fields in which its achievements compared rather unfavorably with those of the industrialized West.

People were ready to make a special effort to repair most of the war damage. Having achieved this under a speeded-up Three Year Plan, they would well be content with a normal rate of economic progress and it is unlikely that the idea of a new "race" would appeal to them. The present generation will also grudge relinquishing so large a share of the fruits of its labors as the heavy investment program demands. Its discontent will only be greater under the system of regimentation and oppression that Communist planning entails. And if it suspects that its efforts and sacrifices serve the interest of a foreign power, the grudge may grow into deep resentment.

After the effort of the accelerated Three Year Plan, and with another Five Year Plan in view, more than vigorous discipline is required to press through the First Five Year Plan. The

machinery for enforcing it is extant and there is no reason to suppose that, should the need arise, it would not be ruthlessly used. But there is a limit to the use of force and the more advanced the economy, the lower the limit. Sabotage could endanger the implementation of the Five Year Plan and even if it entailed risks for all concerned, growing desperation might lead to desperate acts. The stern measures to deter people from sabotage were reinforced in February 1950, and in the course of the year a series of decrees were aimed at tightening discipline, and "social trials" were resorted to in order to frighten the workers into obedience. All this leads one to suspect that whatever the economic improvements may be, the danger of sabotage and unrest is real.

The Situation at the End of the First Quarter of 1950

A report was issued by the National Planning Office but it gives meagre information. Nearly all results are given in the form of percentages based on the output in the first quarter of 1949 or the goal set for the first quarter of 1950, both of which are unknown.

Agriculture is dealt with rather summarily in the report. Performance in spring sowings, as expressed in percentages of the goals set, is uneven. As of 29 April plantings of alfalfa exceeded the mark by 61 percent, that of oats by 9 percent. Sunflower and potatoes were slightly below the goal, corn 18 percent below.

The acreage under crops of state farms and collective farms was given as 250,000 hectares and 224,000 hectares, respectively, which represents in the aggregate 8.5 percent of the acreage under crops. The number of tractor stations had increased to 275 by the end of March.

Mining and all industries, except rubber and clothing, exceeded the targets set for the quarter. But even in the two industries that lagged behind, the deficiency was slight and amounted to 1-2 percent only. Excess achievement ranged from 2 percent (power) to 27 percent (precision instruments). Metallurgy exceeded the goal by 11 percent, heavy engineering by 4 percent.

The percentages based on the output in the first quarter of 1949 are more instructive because they give some idea of the relative rate of progress as the total output in 1949 is known. Mining had a 27 percent increase to its credit, power one of 41 percent. In the manufacturing industry, clothing recorded the highest increase in output with 108 percent, food the lowest with

34 percent. Iron, metal and engineering showed a 41 percent increase. 433

Output of the principal goods is quoted on the basis of the percentage of output in the corresponding period of 1949 and the list of goods is very restricted. Output of coal was 20 percent, oil 3 percent, iron ore 16 percent greater. Output of power increased by 21 percent. The output of producer goods seems to have increased considerably more than that of consumer goods. Phosphate fertilizers, cement and tractors head the list with 132 percent, 109 percent and 91 percent increases, respectively. The production of woolen and cotton fabrics increased by 8 percent only.

The volume of building was claimed to have been as great in the month of March as in the first quarter of 1949. Private information received from Hungary substantiates the claim to high building activity. But most of the buildings seem to be government offices or factories.

It is claimed that the number of workers in mining, industry and building increased by 27,000. If the estimate of their number at the end of 1949 was correct, 440,000 in mining and industry and 130,000 in building, the increase amounts to 4 percent. Accelerated training courses had been completed by 13,400 apprentices, 5,300 of them in the iron, metal and engineering industries. It is not clear whether they were included in the figure quoted above. 464

Productivity in the heavy industries showed a slight decline against December 1949, the postwar peak, while light industry recorded a 7 percent improvement over the same period. Average hourly wages increased by 8 percent in the manufacturing industry, bringing with them a corresponding increase in real earnings as there was no change in the cost of living. Private sources report a shortage of some important foods which does not seem to be reflected in the cost-of-living index number. 461 465 433

Railway traffic is claimed to have surpassed the corresponding 1949 figures by 35 percent in ton-miles and 22 percent in passenger-miles. 497

Both the number and the turnover of state wholesale and retail stores and cooperative village stores were reported to have increased considerably. 438

Investments were 58 percent greater than in the corresponding period last year; that is, the state invested 1.2 billion forints against 0.7 billion last year. 454

60 ECONOMIC PLANNING IN HUNGARY SINCE 1938

The Situation at the End of the Second Quarter of 1950

433 The second quarterly report of the National Planning Office reads very much like a stereotyped version of the first. Even the percentages showing achievement in comparison with the moving targets of the plan show a range of variation, that has now become familiar, of from 100 to 112 percent. The other basis used is output in the second quarter of 1949 and is not very enlightening because the exact values are not known.

In agriculture the acreage under cultivation was claimed to be in conformity with the plan, but the goals had not been published. In comparison with last year, the use of fertilizers increased by 50,270 tons. Prewar production (1938) was 45,000 tons but much of it was exported. Production in 1949 was not given directly but, on the basis of percentages given, was estimated to have amounted to 98,000 tons. Irrigated acreage, 26,000 hectares at the end of 1949, increased by another 5,400 hectares to well over 31,000 hectares. The number of tractor stations has increased to 356 as against 221 at the end of 1949. [471] The most striking event is the great increase in the acreage of state farms, which was given as 234 percent in one year, and that of the collective farms for which an increase of 413 percent was claimed. As the number of the latter increased only about half as fast, their average acreage must have increased considerably; other information indicates that the average acreage falls probably within the limits of 300-400 acres.

Mining and all industries exceeded their goals. In textiles, the excess output was a fraction of one percent, but in the manufacture of precision instruments it was 27 percent. Metallurgy and engineering had each 7 percent to their credit. In comparison with output in the second quarter of 1949, the manufacture of precision instruments heads the list with an excess output of 130 percent with clothing, 87 percent, second. Textiles showed the smallest relative increase, 23 percent.

The list of principal goods, the production of which is given, has become longer than in the first report but again no quantities are given, only percentages of the goals set and of actual output in the second quarter of 1949. In comparison with the corresponding period last year, output of coal was 18 percent, oils 2 percent, iron ore 25 percent greater. In manufactured goods the greatest increase was in the output of clothing, 251 percent. Apart from this item, producer goods keep showing the greater increases ranging from 114 percent in railway engines down to 105 percent in bricks.

THE FIRST HUNGARIAN FIVE YEAR PLAN 1950 - 1954 61

Building activity has been speeded up. In comparison with the corresponding period last year, the volume of construction of buildings of all kinds was 152 percent greater and in other constructional work 237 percent. Over the period the number of workers engaged in construction work increased by 26,000.

At the same time an increase of 17,000 workers was claimed in the mining and manufacturing industries. As the increase was reported to be 31,000 in the first quarter of 1950, the total increase in the first half of the year would be 48,000. At the end of 1949 the total number of workers in mining and manufacturing was an estimated 440,000, and in building an estimated 130,000.

In contrast to the first quarterly report, the second quarterly report keeps silent on the question of productivity and wages.

Passenger-miles and ton-miles of the railways were above those in the corresponding period in 1949 by 32 percent and 18 percent respectively.

Both the number and the turnover of the state and cooperative village stores were reported to have increased considerably.

Investments of the state, now the only investor, amounted to 1.8 billion forints against 1.2 billions in the first quarter. Very reticent on the matter of finance, the report only states that the expanded investment program did not affect the balance of the budget.

A few weeks before the report[1] was published, the Chairman of the People's Economic Council reported on the progress of the people's economy to the Central Executive of the Hungarian Workers' Party. The picture he drew was in some ways more revealing than the text of the report, and fits better into the picture that can be pieced together from events and incidents reported in the party press, from information that trickles through, and from the government measures.

According to the statement, the wage bill in the manufacturing industry increased by 24 percent between April 1949 and April 1950, while the increase in real wages was even greater. Increases in other employment were smaller but still considerable. The Five Year Plan anticipated an overall increase in the standard of living of 35 percent in five years. But in the first four months of 1950, real earnings per capita in the manufacturing industry increased by 18 percent while this improvement was accompanied by an increase in productivity, as measured in volume of output per working hour, of only 9 percent. In comparison with prewar, the level of real earnings was 62 percent greater.

[1] [i.e. the second quarterly report of 1950 - Analyst]

62 ECONOMIC PLANNING IN HUNGARY SINCE 1938

461 The statement[1] complained about lack of discipline, both at the workshop and at managerial level, inefficient planning in the central agencies, and slackness in enforcing government directives. As a result, the high standard of living was endangering the execution of the investment program and dangerous lags were showing in fulfilling the plan. In foreign trade, during the 439 first four months of 1950, imports increased by 56 percent over the corresponding period of 1949 while the increase in exports was only 1 percent.

453 Signs of strain were indeed evident despite efforts to conceal them. One of these was the cessation of publication of the only continuous series still available in the periodic statements of the Central Bank giving the note circulation, bank reserves, savings, assets, and liabilities of the current account of nationalized industry.

433 In Hungary the early part of the year is usually noted for higher prices as the stocks of food and supplies decline before the new crops begin to come in. This year a severe drought damaged most crops. The whole six months' period was characterized by a marked deterioration in the food situation. Important staples, like potatoes, lard, meat, milk products, vegetables which had been available in sufficient quantities since 1947-48, were in short supply. The official explanation blamed higher consumption for the shortages, but admitted also the failure of the new national enterprises responsible for the distribution and hinted at the withholding of food by a resentful peasantry. In some cases, notably that of butter, the capitalist West was blamed because it wanted food against essential machinery. Unofficial information spoke of forced food exports to Eastern Germany and stockpiling for an emergency.

Under such conditions, it seemed unlikely that the standard of living could have improved as fast as had been claimed, at any rate in the course of 1950. At the same time, the stresses and dangers must have been very real if judged by the scope and severity of the measures that were introduced to counteract them. Very great efforts were made to bring in the harvest and have it in the safekeeping of the government. It was decided to strengthen the state-controlled sector of agriculture and notably to build up a systen of state dairy farms and fattening plants around the capital to ensure safe supplies of milk and other animal products. Large-scale purges were organized in trade-661 unions and factories to improve discipline and increase output. 362 Efforts were made to encourage private savings by the launching of a cooperative housing scheme followed up with much vigor.

[1] [Statement of the Chairman of the People's Economic Council, cf. Cat. 116, p. 61 — Analyst]

APPENDIX A

Table III

BUDGETED INVESTMENTS: ACTUAL AND PLANNED INCREASES IN PRODUCTION

	Budgeted Investments, 1000 Fl.				Percentage Increase in Volume of Production			
	Total		Per Year		Actual		Planned	
	Three Year Plan[a]	Five Year Plan[b]	Three Year Plan[a]	Five Year Plan[b]	1946=100	1949	1949=100	1954
Mining	493	2,465	164	493	100	142	100	155
Metallurgy	58	4,723	19	945	100	154	100	195
Power	200	3,285	66	657	100	156	100	194
Manufacturing								
Iron and Steel	139	5,150	46	1,030	100	258	100	198
Engineering	413		138					
Clay, Earthenware	11	618	4	124	100	219	100	215
Glass	5	16	2	3	100		100	126
Chemicals	252	1,934	84	387	100	213	100	238
Leather	8	139	2	28	100	226	100	178
Rubber	---	62	---	12	100	N.A.	100	254
Wood	8	78	2	16	100	279	100	178
Paper	15	165	5	33	100	255	100	156
Printing	7		2		100	225		
Textiles	84	1,051	28	210	100	200	100	152
Clothing	---	119	---	24	100	494	100	350
Food	22	1,383	7	277	100	370	100	170
Total	964	10,715	320	2,144	100	268	100	192
Total Excl. Food	942	9,332	313	1,867	100	239	100	201
Grand Total	1,715	21,188	569	4,239	100	247	100	190
Grand Total Excl. Food	1,693	19,805	562	3,962	100	220	100	198
Agriculture[c]	2,000	8,000	666	1,600	100	153	100	142

Source: National Planning Office, The Three Year Plan and Final Report on the Three Year Plan; Act XXV of 1949, re the First Five Year Plan of the Hungarian People's Republic

a. January 1947 prices. b. "Plan Prices." c. Half of the investments in agriculture under the Three Year Plan ought to have been listed under other headings.

185x
454
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8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

Table IV

185 X
433

PRODUCTION IN MINING, METALLURGY, MANUFACTURING INDUSTRY AND AGRICULTURE 1938, 1946 - 47, 1947 - 48, 1948, 1949, 1954 (planned)

Millions of forints at January 1947 prices

	1938	1946-47	1947-48	1948[a] Aug.-Dec.	1949	1954 Planned
Mining	632.4	631.1	750.0	863.4	896.1	1,390.8
Metallurgy	511.0	439.9	541.1	620.3	679.6	1,325.2
Power	492.3	530.9	680.4	754.7	829.5	1,610.1
Manufacturing						
Iron and metal	1,292.4	2,147.8	1,570.4	1,801.7	2,351.1	10,992.5
Engineering	1,506.4		1,979.4	2,321.4	3,195.1	
Clay, earthenware	400.0	288.6	322.8	422.4	496.4	1,066.3
Glass	84.0		116.7	125.3	136.7	172.2
Chemicals	1,319.4	1,075.3	1,176.1	1,700.2	2,291.6	5,454.0
Wood	352.5	155.6	345.8	327.1	433.6	772.6
Paper	221.0	118.5	158.0	227.2	302.1	894.5
Printing	202.0	120.4	166.9	189.3	271.3	
Leather	481.4	188.6	305.2	305.2	425.6	757.6
Rubber	----	----	----	----	----	----
Textiles	2,871.5	1,589.5	2,357.5	2,618.8	3,184.5	4,840.4
Clothing	631.8	186.3	484.6	661.5	920.5	3,221.8
Food	3,702.0	1,666.6	2,839.4	4,512.7	6,160.1	10,478.3
Total	13,064.4	7,537.2	11,822.8	15,212.8	20,168.6	38,650.2
Total Excl. Food	9,362.4	5,870.6	8,983.4	10,700.1	14,008.5	28,171.9
Grand Total	14,700.1	9,139.1	13,794.3	17,451.2	22,573.8	42,978.3
Grand Total Excl. Food	10,998.1	7,472.5	10,955.9	12,938.5	16,413.7	32,498.0
Agriculture	10,434.0	5,942.0	7,492.0	9,359.0	9,078.0	12,908.0

Source: 1938 - National Planning Office, The Three Year Plan and Report on the First Year of the Three Year Plan (Hung.)
Z. Vas, The Three Year Plan, etc., Social Review (Hung.) 1950, Vol. V, No. 2, p. 131; Act XXV of 1949, re The First Five Year Plan of the Hungarian People's Republic.

Note: The figures for 1946 - 47, 1949 have been computed on the basis of percentages given in a semi-official paper. The figures for 1954 have been computed on the basis of the percentages given in the act embodying the First Five Year Plan. The original values given in the act are based on "Plan Prices."

a. Expressed on a per year basis.

APPENDIX A

Table Va

PRODUCTION IN MINING, METALLURGY, MANUFACTURING INDUSTRY AND AGRICULTURE

185 X
433

1938, 1946-47, 1947-48, 1948, 1949 and 1954 (planned)

Percentages, 1938 = 100

	1938	1946-47	1947-48	1948 Aug.-Dec.	1949	1954 Planned
Mining	100	99	118	136	141	219
Metallurgy	100	86	106	121	133	259
Power	100	108	138	153	168	327
Manufacturing industry						
Iron and steel	100	77	121	139	182	393
Engineering	100		131	154	212	
Clay, brick, earthenware	100	60	81	106	124	262
Glass	100		158	148	163	205
Chemicals	100	81	89	129	174	413
Textiles	100	55	82	91	111	169
Clothing	100	29	77	105	146	510
Leather	100	39	63	63	88	177
Wood	100	44	98	93	123	219
Paper	100	54	71	103	137	211
Printing	100	60	83	94	134	
Food	100	45	77	122	166	283
Total	100	58	98	116	155	384
Total Excl. Food	100	83	96	114	150	301
Grand Total	100	62	94	119	153	292
Grand Total Excl. Food	100	68	99	118	149	295
Agriculture	100	53	72	90	87	124

Source: Based on Table IV

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

Table Vb

PRODUCTION IN MINING, METALLURGY, MANUFACTURING INDUSTRY AND AGRICULTURE

1946-47, 1947-48, 1948-49, 1949 and 1954 (planned)

Percentages, 1946-47 = 100

	1946-47	1947-48	1948 Aug.-Dec.	1949	1954 Planned
Mining	100	119	137	142	220
Metallurgy	100	123	141	154	301
Power	100	128	142	156	303
Manufacturing industry					
Iron and steel	100	165	192	258	511
Engineering	100				
Clay, brick, earthenware	100	152	190	185	429
Glass	100				
Chemicals	100	109	158	213	507
Textiles	100	148	165	200	305
Clothing	100	260	358	494	1.729
Leather	100	162	162	226	402
Wood	100	222	210	279	497
Paper	100	133	192	255	374
Printing	100	130	157	225	
Food	100	170	271	370	629
Total	100	157	202	268	513
Total Excl. Food	100	153	182	239	480
Grand Total	100	151	191	247	470
Grand Total Excl. Food	100	147	173	220	435
Agriculture	100	136	170	166	234

Source: Based on Table IV

APPENDIX A

Table VI

PRODUCTION OF PRINCIPAL GOODS IN 1938, 1946-47 AND UNDER THE THREE YEAR AND FIVE YEAR PLANS

	Units	Actual Production				Planned
		1938	1946-47	1948	1949	1954
Iron Ore	1,000 Tons	297.0	214.3	258.3	339.0	N.A.
Bauxite	1,000 Tons	540.0	248.1	400.0	561.0	N.A.
Coal	1,000 Tons	9,340.0	7,747.0	9,856.3	11,834.0	18,500.0
Oil	1,000 Tons	43.0	642.3	496.2	502.0	N.A.
Pig Iron	1,000 Tons	335.0	258.0	343.0	428.0	960.0
Steel	1,000 Tons	647.0	510.0	718.8	846.0	1,500.0
Aluminum	1,000 Tons	1.2	3.7	7.5	14.4	N.A.
Power	Million KW Hrs.	1.4	N.A.	1.9	2.2	4.3
Machine Tools	Million Forints	4.8	N.A.	69.5	150.0	610.0[a]
Railway Trucks	Million Forints	104.0	N.A.	251.1	333.0	N.A.
Railway Trucks	Units	N.A.	N.A.	N.A.	4,650.0	10,000.0
Railway Engines	Million Forints	35.2	N.A.	127.7	113.0	520.0[a]
Trucks	Million Forints	88.0	N.A.	21.9	167.0	N.A.
Trucks	Units	N.A.	N.A.	439.0	3,200.0	9,000.0
Tractors	Million Forints	20.0	N.A.	32.5	N.A.	N.A.
Tractors	Units	2,600.0	N.A.	1,160.0	N.A.	4,000.0
River Craft	Million Forints	30.0	N.A.	61.2	96.3	30.0
Agricultural Machinery	Million Forints	30.4	N.A.	116.0	160.9	N.A.
Bicycles	Million Forints	44.5	N.A.	61.0	126.0	N.A.
Bicycles	Units	N.A.	N.A.	101,600.0	3,200.0	9,000.0
Motor Bicycles	Million Forints	4.1	N.A.	5.8	29.7	N.A.
Motor Bicycles	Units	N.A.	N.A.	2,513.0	12,000.0	23,000.0
Cement	1,000 Tons	339.0	142.9	281.0	551.0	1,051.0
Sheet Glass	Million Meters[2]	1.6	3.1	4.4	3.9	N.A.
Blown Glass	1,000 Tons	14.0	N.A.	18.6	19.7	N.A.
Caustic Soda	1,000 Tons	2.7	N.A.	3.6	8.2	9.7
Phosphate Fertilizer	1,000 Tons	43.0	N.A.	35.4	89.6	339.0
Nitrogenous Fertilizer	1,000 Tons	37.0	N.A.	21.4	67.2	307.2
Vegetable Oils	1,000 Tons	19.0	N.A.	23.0	34.5	89.5
Paper	1,000 Tons	49.5	N.A.	47.4	72.1	100.2
Cotton Fabrics	Million Meters	185.0[b]	107.7	176.1	220.5	311.5
Woolen Fabrics	Million Meters	14.0	6.6	12.9	17.5	28.4
Leather Shoes	Million Pairs	3.5	N.A.	3.7	N.A.	9.0

Source: National Planning Office, The Three Year Plan and Report on the First Year of the Three Year Plan; Z. Vas, The Three Year Plan, etc., Social Review (Hung.) 1950, Vol. V, No. 2, p. 131; Act XXV of 1949, re the First Five Year Plan of the Hungarian People's Republic, (Hung.); National Bank of Hungary Monthly Bulletin, (Hung.) 1947 Vol. XXI, Nos. 7-8, p. 311.

Note: The figures of 1949 were computed on the basis of percentages, those for 1954 on the basis of percentages or expected absolute increase in production. All values, unless marked, at January 1947 prices.

a. Plan prices.
b. Owing to some double counting, true output was about 168.0 million meters.

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

Table VII

VOLUME OF GOODS AVAILABLE FOR CONSUMPTION
1938, 1946-47, 1947-48, 1949-50, 1950, 1954 (planned)

Billion forints at January 1947 prices

	1938	1946-47	1947-48	1949-50 (1949)	1950	1954
National Income	21.623	13.989	18.746	(26.809)	(29.600)	(43.700)
Balance of foreign trade	-1.103	.118	.440	N.A.	(-)	(-)
Total	20.520	14.107	19.186	(26.809)	(29.600)	(43.700)
Operational expenditure of public authorities	2.830	.916	1.655	(2.000)	(3.000)	(4.000)
Reparations, etc.	-	1.436	1.223	(.600)	(.600)	(-)
Investments	1.205	.530	1.987	(4.800)	(6.300)	(9.400)
Increase in livestock	.168	.182	.387	(.500)	(.500)	(.500)
Grand Total	16.317	11.033	13.934	(18.909)[a]	(19.200)	(29.800)
Increase in inventories						
Social Democratic Plan	(.726)[c]	(.8-.900)[d]	2.091	1.971	(2.000)[e]	(3.000)
Planning Office (Nagy, op. cit.)			.770[f]	.900[f]		
				(1.500)		

Source: National Planning Office, Report on the First Year of the Three Year Plan (Hung.) and Final Report on the Three Year Plan; J. Judik, The Three Plan, Hungarian Economic Review, 1947, Nos. 1-2, p. 32, Act XXV of 1949 re the First Five Year Plan of the Hungarian People's Republic.

Note: The figures for 1949, 1950 and 1954 are estimates, based on incomplete official data.

a. A Memorandum of the Hungarian Institute for Economic Research gives 16.913 billion forints. The provisional estimate of the Planning Office was 17.170. Both estimates were made at the end of 1948 and the latter took no account of the increase in inventories.

b. The text of the Five Year Plan gives the figure as 185 percent of prewar. It also says that it will be 140 percent of 1949, which would give 23.0 billion for 1949. Presumably the first figure is expressed in January 1947 prices, the second in the new Plan prices.

c. Cf. Judik, op. cit., p. 33.

d. Hungarian Institute for Economic Research, Report on the Economic Situation, No. 54, p. 168.

e. Assuming that stocks had reached about prewar level and that, as before the war, about one third of the investments were required to increase inventories.

f. Both in comparison with prewar and with the Social Democratic Plan, the figures seem to be much too low.

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

CHAPTER III

THE ECONOMY OF HUNGARY

RELATIVE IMPORTANCE OF AGRICULTURE AND INDUSTRY. Hungary is still mainly an agricultural country, although not to such an extent as the countries east and south of it—Rumania, Yugoslavia or Bulgaria—in which 70–80 % of the population still consist of peasants. Trade, industry and town life have been developing fairly rapidly during the last decades, and about 40 % of the population now live in towns.

Nevertheless, the last occupational census taken in Trianon Hungary showed nearly 52 % of the population still engaged in primary production (agriculture, forests and fisheries), against 23 % in mining and industry, 5·4 % in trade and finance, 3·9 % in communications, the other 15·7 % being divided between the public services, the professions, rentiers, domestic servants, etc.

Agriculture is not only the occupation of the largest section of the population, but is also from other points of view the most important item in Hungarian economy. The exports still consist mainly of agricultural products, raw or processed. This has in recent years been felt to be a danger, owing to the uncertainty of the harvest and the low prices which have often obtained for agricultural produce. It has been largely for that reason—although partly also with the object of absorbing the surplus rural population, and partly for reasons

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

433 of national self-defence—that industrialization has
439 been encouraged. The Hungarians themselves now claim that their country occupies a middle position between the industrialized West and the agricultural East. To the latter it exports, in normal times, a certain amount of industrial products in return for industrial raw materials, oil, and the few agricultural products in which it is not self-supporting. The chief of these is maize for fattening livestock. Hungary's exports to the West, however, are still overwhelmingly agricultural and imports from the West almost entirely industrial.

24 | **PRINCIPAL CROPS.** Of the agricultural products, wheat is still by far the most important, especially for the export trade; whether Hungary is well or badly off in any given year still depends largely on the quantity and quality of the wheat harvest and the price of wheat on the world market. July, when the wheat is being reaped and threshed, is the climax of the year, when it is difficult to get Hungarians to attend to any other business whatever. A good deal of rye, barley and oats is also grown, rye being largely used for bread and barley for feed or brewing. In August the fields are full of maize, which is chiefly used for fodder but is also eaten on the cob. Potatoes and roots are becoming more important. Hungarians do not eat many fresh vegetables, and leave market gardening, except for onions, mainly to immigrant Bulgarian gardeners. Lately, however, the cultivation of fruit has made much progress, especially in the sandy districts of the Alföld. There is a considerable export trade in fruit, raw, pulped or canned; from

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

235 Poultry, including geese, are kept on a very extensive scale. Of all aspects of a Hungarian village that likely to impress the traveller most vividly is that of the enormous numbers of snowy geese strutting about the street, splashing in and round the goose-pond in the centre of the village, or feeding in slow-moving flocks on the village green. The peasants rarely eat poultry themselves, but fatten them for the town market or for export. A considerable and growing trade is done also in poultry products, such as eggs and feathers.

433 **INDUSTRY: EFFECT OF FRONTIER CHANGES.** The oldest Hungarian industries are those connected with the processing of agricultural products: flour-milling, brewing, distilling, tanning, etc.; also industries working with local raw materials and for local consumers, such as brickworks. These are still among Hungary's most important industries, and have lately been reinforced by the development of the canning, pulping and kindred industries. Flour-milling, on the other hand, which had developed before 1914 to serve the entire Austro-Hungarian monarchy, passed through a severe crisis after 1918.

433 311 In the last decades before 1918, an effort had been made to develop Hungarian industry on a national basis. This was planned in accordance with the raw materials which Hungary then possessed. The factories engaged in primary production were sited near the sources of raw materials; the finishing industries were largely concentrated in and round Budapest.

The Treaty of the Trianon detached from Hungary a large part of her sources of industrial raw

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

materials—in particular, far the greater part of her timber—with the factories sited near them, while leaving the bulk of the finishing industries inside the new frontiers. The only important raw material of which the majority was left inside Trianon Hungary in 1920, was coal, the chief mines of which were near Pécs, in Southern Hungary.

Hungarian industry was thus largely back in its old position of dependence on imported raw materials, which had to be paid for with the proceeds of exported agricultural produce. Something was done to remedy this by developing further local raw materials. The most important of these is bauxite, of which Hungary possesses very large deposits. Oil was also discovered near the Croatian frontier, and a not inconsiderable production was developed. In other cases, however, almost the whole of the materials had to be imported. These industries have suffered severely since the outbreak of war.

According to recent figures, the industrial group employing the largest number of hands (nearly 64,000), was the textile. After that came the iron and metallurgical industry, with 50,000, the machine industry with 40,000 and the foodstuffs industry with 34,000; the value of the production of this last group was much the highest of all. Other works employing a considerable number of hands were the glass and chemical industries, those utilizing wood and bones, the brickworks and the tanneries.

SMALL COMMERCIAL INCOMES. The whole structure of Hungarian life is still much simpler and less

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

CHAPTER IV

THE SOCIAL STRUCTURE OF THE COUNTRY

1. *The Countryside*

In spite of the industrialization of recent decades, the economic and social life of Hungary is still built up round its agriculture, and its most important problems are still those of its agricultural population. Those problems are also the most difficult; for whereas industry, when it began to develop in the nineteenth century, was able to make something of a clean start, agriculture was burdened with a heritage of medieval traditions and vested interests.

UNEQUAL DISTRIBUTION OF LAND. The agrarian population of Hungary still lives under conditions which differ, to their disadvantage, from those prevailing in most other countries. Its friends, who are few, call the system 'patriarchal', while its enemies, who are many both inside and outside Hungary, describe it as 'feudal'.

In the strict legal sense, the term feudal is inaccurate, since the inequality before the law and the restrictions of the personal liberty of the peasant, which existed in Hungary, as almost everywhere on the Continent, up to the nineteenth century, were abolished in 1848. If, however, the word is used in a broad sense, it is not an unfair description of rural conditions in Hungary, the most

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

made a series of attacks on the traffic points and military installations on the outskirts of the city.

Luxuries[1] had, of course, soon become unobtainable for most of the people, but the supply of the necessities of life was fairly well maintained up to the summer of 1944. Clothes, other textiles and boots and shoes were in short supply but not absolutely lacking, and most of the essential foods were available in sufficient, although not luxurious, quantities.

But this position was only made possible by drawing dangerously on reserves and mortgaging the future. The fields were exhausted by over-cropping and under-manuring. The animal population had dwindled dangerously. The scanty stock of agricultural machinery, and even of ordinary implements and tools, had begun to run low and could not be replenished. Moreover, labour shortage on the land had become acute, in consequence of mobilization.

In the factories, much machinery was turned over to war production. This would need to be reconverted for peace production. There was little replacement of worn-out machinery for a full five years. The transport system was also getting worn out. There was a general and growing housing shortage.

But all this would still have left Hungary in a position which most Continental countries could have envied if the war had not reached her in the autumn of 1944. When it did come, it came very severely. The Soviet armies were able to sweep through Rumania. In most parts of Yugoslavia the fighting was on the guerilla scale, except along

[1] [during World War II--Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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neighbors, aimed at self-sufficiency. Industry was granted additional subsidies in the form of loans, cheap factory sites, and other measures. Together with low world market prices this policy was responsible for the depressed state of Hungarian agriculture from 1928 until about 1934, but all subsequent governments adhered to the industrialization program and frequently carried it further.

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The runaway inflation of the mid-twenties disrupted the country's finances, wiping out individual savings and ruining many companies.

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During the early twenties the Hungarian Oil Syndicate (an affiliate of the Anglo-Persian Oil Company) started explorations in western Hungary while the government carried out explorations east of the Danube. However, the Hungarian Oil Syndicate lost most of its exploration funds during the period of inflation and this coupled with unsuccessful drilling operations forced the company to abandon operations and pull out of Hungary. The government was also unsuccessful in this period, its only discovery that at Bükkszék, which resulted in the production of only 92,500 barrels over a thirteen-year period, much of it at an actual financial loss.

In 1933 the government granted a five-year concession for all areas west of the Danube to Eurogasco (an affiliate of the Standard Oil Company of New Jersey) in return for a pledge that $300,000 would be spent on prospecting and that at least eight wells would be drilled. Eurogasco's activities led to the discovery of the first commercial oil field in 1937 situated at Lispe, Zala County, near the old wells of the Mura district which were ceded to Yugoslavia in 1920. In 1940 a second field was developed nearby, at Lovászi. An eight-inch pipeline connecting the Zala fields with Budapest was completed in 1941. In that year Hungary reached self-sufficiency in oil production, and her 1943 output of 838,000 tons of crude contrasted with a (controlled) civilian consumption of only about 321,000 tons of refinery products (about 380,000 tons of crude equivalent). Table VI gives the civilian consumption for the years 1940-1943. More than half of the pro-

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1/ [Cf. page 88, category 116--Analyst]

12 Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

duction was thus available for the armed forces or for export to Germany.

A new operating company, the Hungarian-American Oil Company (MAORT), a subsidiary of Eurogasco, obtained a forty-year concession soon after the Lispe discovery under the same arrangements as had been made with Eurogasco whereby the royalties to be paid to the government were fixed at 15 percent of the crude oil and 12 percent of the marketed natural gas production. MAORT achieved such successful results that in less than six years it became Hungary's third largest industrial enterprise and, considering the indirect effects, probably the largest single corporate contributor to the national income.

During the late thirties the economic aspects of agriculture improved due to ever increasing agricultural exports to Germany under the Hungarian-German trade agreements, even though protection of industry remained the official policy of the government.

In 1938 Hungary began to rearm. With Axis support parts of the territories lost in 1920 were recovered from Czechoslovakia in 1938 and 1939, from Romania in 1940, and from Yugoslavia in 1941. As a result, the country's area increased from 93,073 square kilometers in 1938 to 170,869 square kilometers in 1941 with a corresponding increase in population from less than 9 million to 14.6 million. In 1941 Hungary entered World War II on the German side.

Rearmament, the recovery of about half of the pre-Trianon territory, and finally war gave a tremendous impetus to the economy. Industrial employment rose from 289,000 in 1938 to 392,000 in 1943 (excluding the recovered areas), and, for the first time, the value of the industrial output surpassed the value of agricultural production.

Government controls gradually increased. The allocation of raw materials and the rationing of food and gasoline were introduced, and for the first time in Hungarian history the government embarked on large-scale economic planning.

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

The "Billion Pengő Plan," officially known as the Five-Year Plan of 1938, was primarily a result of military considerations. Originally calling for an investment of one billion pengős, it was repeatedly revised upward until it reached 4.5 billion by 1943. Roughly three-fifths of the total funds were devoted to rearmament and to the heavy industries, while transportation and agriculture received one-fifth each. The plan was financed by a progressive capital levy and by government borrowing. It was carried out through the existing ministries by simply expanding their activities. A Ten-Year Plan for Agriculture calling for the investment of 100 million pengős annually was launched in 1942, but wartime dislocations prevented its realization.

By the spring of 1944 the power, aluminum, chemical, and oil industries had been considerably enlarged. The total Hungarian refining capacity was estimated as 3.5 million barrels annually before the territorial losses of 1920; as 1.5 million barrels in 1920; and was 3.2 million barrels in 1940. In contrast to this relatively modest development, by the spring of 1944, the total capacity had increased to more than 10 million barrels, only 710,000 of which were from refineries located in the temporarily recovered areas. The new plants at Pét and Szőny, which were built by the government within the framework of the Five-Year Plan of 1938, had a combined capacity of 3.6 million barrels; these plants alone considerably exceeded the total 1940 capacity.

During World War II numerous concessions were granted to German and Italian as well as domestic oil companies in the areas east of the Danube and in the recovered areas. These groups carried out extensive geophysical surveying and a few test wells were drilled. However, it was only in the Mura district, close to the Hungarian Zala fields that commercial discoveries were made. Small-scale production began in 1943. Two years later, in 1945, Yugoslavia recovered the district once more.

At the end of World War II the economy was once more at a standstill. In 1945 agricultural production did not reach one half of prewar production, while industrial output was only a fraction of that of 1938. Of 4,341 factories

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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[434] only 186 were working at over 70 percent of prewar capacity, while 1,109, or over 25 percent, were completely out of operation. It is estimated that even in 1946/47 the national income was only 65 percent that of 1938 and less than 50 percent that of 1943, the peak war year. The Hungarian economy as a whole, and especially the industrial sector, heavily concentrated in Budapest, was among those most seriously damaged in Europe.

[458] The Soviet occupation, heavy reparations payments, general political uncertainty, and a runaway inflation in 1946 made the task of reconstruction even more difficult.

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648 According to the Potsdam agreement all Axis property, even that which had been forcibly taken over by the Germans during the war was handed over to the Soviet Union. Subsequently, new Soviet-Hungarian companies began to mushroom in manufacturing as well as in transportation, and it was at this time that the Hungarian-Soviet Oil Company, Maszovol, was organized.

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[471] While the Zala fields had escaped major war damage they suffered by the wasteful practices engaged in under pressure from German and later Soviet military authorities (see Table VII).[1] After prolonged negotiations the MAORT properties (all areas west of the Danube) were returned to the American owners in 1946.

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471 A land reform and the nationalization of industries "with monopolistic character" such as steel and coal were swiftly carried out after the war.

[565] Land reform, nationalization without compensation, and the inflation of 1946 largely destroyed the propertied classes, and in the chaotic conditions a downward leveling also affected the skilled workers.

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[665] By mid-1947 the communists within the coalition government had virtually eliminated any possibility for non-communist government plans, and for all practical economic purposes the communists were in control. Dictated by the realities of the prevailing postwar conditions, certain

[1] [Cf. page 88, category 116 -- Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

185 was at once a reconstruction, production, and investment program, with emphasis on the first, those investments that would have an immediate effect on production and would eliminate bottlenecks being given priority.

[647] A National Planning Office was set up to detail the plan, which had been approved only in outline by the party [652] leadership. The Investment Bank and the Bank of Issue were in charge of financing operations. All activities were supervised by the Supreme Economic Council and by the Cabinet.

652 454 Of the investment of 6.6 billion forints called for by the plan (1 forint was equal[1] 8.52 United States cents at the official rate), agriculture was to receive 2.0; mining and manufacturing, 1.7; transport, 1.7; and building, 1.2 billion forints. Included under "agriculture" were such items as tractor and fertilizer plants, road building, rural electrification, irrigation projects, and the establishment of tractor stations. Sixty-seven percent of the total was to be met from treasury funds (taxes and loans), 18 percent by local authorities and government agencies, and the balance by cooperatives (4 percent), remaining private sources (9 percent), and Soviet-Hungarian companies (2 percent).

185 After a very promising start the plan was speeded up and it was concluded by 1 January 1950 instead of 1 August of the same year.

185 315 433 Oil was among the few basic commodities that fell considerably short of the goals. The plan called for production of 540,000 tons in 1947/48 and for 660,000 tons in 1949/50 which was later moved up to 1949 under the speed-up program. In contrast with these high expectations the actual output was only 475,000 tons (3,600,000 barrels) in 1948 and a little below 500,000 tons (3,800,000 barrels) in 1949. Thus, only 75 percent of the plan was fulfilled in oil production, and the 1949 output remained at but 59 percent of the wartime peak of 1943.

000 While mechanization in agriculture progressed, 211

[1] [sic -- Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

While mechanization in agriculture progressed, 211 new tractor stations being set up and 4,500 tractors added to an existing stock of 12,500, the plan fell short of its goal in the agricultural sector, with the exception of livestock which reached the prewar level. Crop production in 1949 reached only 77 percent of prewar, a near disaster.

In mining and metallurgy the plan aimed at 38 percent above the prewar level. It called for an output valued at 1.5 billion forints compared with 1.2 billion in 1938 and an estimated 2.0 billion in 1943/44. In 1949 Hungary produced 11,844,000 tons of coal and lignite, 293,000 tons of iron ore, 428,000 tons of pig iron, 850,000 tons of steel, 561,000 tons of bauxite, 17,000 tons of aluminum, 45,000 tons of manganese ore concentrates, and smaller amounts of copper and lead ores. With the exception of oil and a few other smaller items the plan was reached or surpassed.

The output of power ran about 20 percent ahead of the plan and reached 2.36 billion kilowatt-hours in 1949 compared with 1.4 and 2.1 billion kilowatt-hours in 1938 and 1943 respectively.

The gross output of manufacturing, excluding electricity, was to be more than doubled to a level of 16.5 billion forints in 1949. While it was officially claimed that the plan was overfulfilled by 21 percent, which would put the value of the 1949 manufacturing output (including electricity) at 20.8 billion forints, this claim is definitely too high and should be revised downward, to perhaps 14 billion forints or about 1.2 billion dollars.

With the exception of the leather industry it was claimed that the output of all others exceeded the 1938 level by margins ranging from 12 percent in textiles to 112 percent in engineering in 1949. Nothing was said of the refining industry. A drastic shift to investment materials at the expense of consumer goods is apparent.

Prior to the end of World War II Hungarian industry had used relatively large quantities of fuel oil. Reconstruction and expansion during the plan period suggest

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

Operations in the oil fields had been little disturbed 315 433
by the war, and in the immediate postwar period production was maintained at a relatively high level. The 1945 crude production of 656,000 tons (4,990,000 barrels) and the 1946 output of 675,000 tons (5,130,000 barrels) was exceeded only during the peak war years, and represented one of the few bright spots in the otherwise rather bleak economic picture. However, neither the owners of MAORT nor the Hungarian economy benefited very much from this [439] production. In 1945-1946, the bulk of the crude went to the Red Army without payment, while in the following years, 1946-1948, much went to the Soviet Union and neighboring satellites as forced exports or as reparations. During [435] this period the crude had to be delivered to the government at arbitrarily fixed prices.

In the spring of 1948, paralleling the second wave [471] of nationalization, the directors of MAORT were tried for [687] sabotage of the Three-Year Plan, and soon after the company was confiscated. Subsequently, MAORT was sub- [473] divided into several "National Enterprises." Crude production fell to 569,000 tons (4,324,000 barrels) in 1947 and fluctuated between 475,000 and 500,000 tons (3,610,000 and 3,800,000 barrels) during the following three years. As noted above, the targets set in the Three-Year Plan were not reached, and by 1949 the persistent crisis in the oil industry became one of the planners' major problems.

The old Zala fields were nearing depletion and could no longer continue the forced production records of wartime, while the expected new discoveries did not materialize. An acute shortage of drilling equipment, lack of skilled labor, and successive purges of management materially contributed to this failure.

In eastern Hungary, the German-held MANAT con- 315 473
cession was handed over to Soviet ownership. A Soviet-Hungarian Oil Company, Maszovol, was organized in 1946. Extensive oil explorations were carried out but no commercial oil discoveries were made until the end of 1949.

Hungary's refineries, unlike her oil fields, were 382
very severely damaged during the war. Refining capacity, 433

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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433 which was rated at 1,300,000 tons (10 million barrels) in 1944 plummeted to less than 100,000 tons (760,000 barrels) one year later. Reconstruction was slow at first, but gained momentum. Total existing capacity was estimated as 824,000 tons (6.36 million barrels) in 1947; 1,200,000 tons (9.1 million barrels) in 1948; and 1,600,000 tons (12.2 million barrels) in 1949. It should be noted that most Hungarian refineries built in the 1930's were equipped only for fractional distillation, and this condition remained virtually unchanged in 1947, as the more recently built large and modern plants were the ones most severely damaged during the war. It would appear that the planners counted on both increasing domestic production and large-scale imports of Romanian crude, but these assumptions failed to materialize. As a result, until at least 1948 the refineries operated at less than 50 percent of theoretical capacity. (See Table V.)[1] There are numerous reports stating that, beginning in 1949, large quantities of Austrian crude were being refined in Hungary.

185 The Three-Year Plan as a whole was ambitious but not unrealistic. It seems to have fulfilled its aim in reaching 110 to 120 percent of the 1938 production, an achievement due primarily to a forced production drive rather than to the government's investment program, the results of which could not yet be felt.

454 The investment program itself concentrated on the heavy industries, neglecting consumer goods production and agriculture.

Actual investments, adjusted for inflation, amounted to 8.3 billion forints, about 700 million dollars and exceeded the plan by 25 percent. In 1949 investment absorbed 18.7 percent of the national income to which an additional 5.3 percent must be added for inventory increase. Thus the total is 24 percent, an astonishingly high figure.

434 The true national income (reduced from exaggerated propaganda claims) appears to have been 17.4 billion forints in 1947/48 or 81 percent of prewar, and 25.5 billion forints (2.17 billion dollars) or 118 percent of prewar in 1949. This was still about 15 percent below the 1943 figure.

[1] [Cf. p. 87, category 116 -- Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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454 6 billion or 21 percent in 1950; and 8.75 billion or 24.5 percent in 1951. To these investment figures very considerable inventory increases must be added, without which the constantly accelerating expansion program would be impossible. Inventory increases absorbed an additional 4 to 5 percent of the national income or about 0.85 billion forints in 1947/48 and perhaps as much as 1.7 billion in 1951, also figured in constant January 1947 forints. Thus, investments and inventory increases amounted to 10.4 billion forints (roughly 886 million dollars) and nearly) percent of the national income in 1951 compared with only 2.85 billion forints (about 242 million dollars) and 15 percent of the national income in 1947/48.

Revisions of the plan also gave an ever increasing share of investments to heavy industries at the expense of consumer goods industries and of agriculture. The share of heavy industry in total investments increased from 18.6 percent in 1938 to 32 percent in 1947/48, 40.5 percent in 1950 and 48 percent in 1951; and to this must be added hidden investments listed for propaganda purposes as housing, and other indirect expenditures, such as the expansion of the transportation system. By contrast the consumer goods industry's share in new investments declined constantly from 9.2 percent in 1938 to 3.6 percent in 1951.

433 Most actual production data is not available, or is highly controversial. Output data for 1952 claimed or calculated from officially released percentage increase figures are as follows: coal "more than" 18 million tons, steel 1.4 million tons, electric energy 3.7 billion kilowatt-hours. The 1954 production goals call for 27.5 million tons of coal (mostly lignite), 2.2 million tons of steel, and 6.05 billion kilowatt-hours of electric energy.

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433 Nothing was said in the plans about the crude oil or the refining industries beyond general statements to the effect that they will be greatly expanded.

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315 It appears that after the dismal failure to reach the crude production targets of the Three-Year Plan, long-range plans were drawn up only in terms of explora-

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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315 tions to be made and number of meters to be drilled. These plans remain communist state secrets, but it is evident from a wealth of private reports as well as scattered official pronouncements that geological and geophysical explorations are being carried out at a scale hitherto unknown in Hungary. The 1953 drilling plan, as an example, calls for 263,000 meters (852,800 feet) of new wells, or more than five times the MAORT average in the years 1937-1945.

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433 Crude production in 1950 remained unchanged at the 1949 level of 490,000 tons (3,724,000 barrels) and fell to 475,000 tons (3,610,000 barrels) in 1951. The old Zala fields continued to decline, a loss which was not quite made up by the production of newly discovered fields. The year 1952 appears to have been a turning point in crude production. At least one important new field began producing north of the old Zala fields, and there were reports of scattered production elsewhere in Transdanubia and in northeastern Hungary. Production rose to 560,000 tons (4,250,000 barrels) overfulfilling the yearly plan, and according to official statements was held back only by transportation bottlenecks. The 1953 plan is 25 percent over the 1952 output or slightly over 700,000 tons (5,320,000 barrels). According to official reports in the first quarter of 1953 the plan was fulfilled.

382 Knowledge of the refining industry is much less complete than that of crude production. It is known, however, that the industry as a whole has been considerably expanded. A large new refinery was reportedly built in southwestern Hungary at Nagykanizsa to process much of the output of the nearby Zala fields. The modernized and expanded old plants along the Danube at Szöny and Almásfüzitö as well as those in the Budapest area are refining primarily imported Austrian crude.

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433 Total refining capacity as of 1952 is estimated as 2,500,000 tons (19,000,000 barrels) annually, but a high percentage of this capacity is equipped only for fractional distillation. Although no reliable direct information is available, it would appear that the refineries operated

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433 considerably below capacity throughout the whole 1950-1952 period.

Imports, Exports, and Consumption

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382 Before oil was discovered and exploited in Transdanubia, Hungary met her oil needs by imports.

[373] Widespread demand for oil began in Hungary with the introduction of kerosene lamps around 1862. Until 1900 Russia, the United States, and Romania were the main sources of oil imports. Imports of refined products, almost exclusively kerosene, reached 100,000 tons annually during the 1880's for the whole Austro-Hungarian Empire, of which Hungary accounted for about 25,000 to 30,000 tons.

When some small refineries began operating in Hungary a duty was placed on kerosene. From 1885 on, considerable quantities of "synthetic crude" (kerosene mixed with crude oil) were imported from Russia and later from Romania to avoid this duty.

Galicia, then part of the Dual Monarchy, replaced American and Russian sources when oil was discovered there at the turn of the century. Shipping costs were lower and the oil was not subject to the import duty. However, some oil continued to go from Romania to nearby Hungarian Transylvania.

Meanwhile different oil products came into demand. Pitch and asphalt were produced from the asphalt-based Russian and Romanian crude. Paraffin from the paraffin-based Galician crude replaced beeswax and stearin in candles and became an important commercial product finding markets as distant as China. After 1900 some lamps burned lighter oil, and gasoline became a cleaning agent and a chemical solvent. Lamp kerosene, however, had to be free of gasoline, since its boiling point was fixed by law to prevent fires. Until well into the twentieth century gasoline was disposed of in flaring-pits as an undesirable by-product of kerosene refining.

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

000 desirable by-product of kerosene refining.

382 After 1910, as electric lighting replaced kerosene lamps, automobiles came into use and the diesel engine was invented; and gasoline and heavier motor and lubricating oils joined kerosene as important oil products. Hungarian gasoline consumption remained low, however. To reduce imports it was mixed with alcohol from surplus potatoes. While few homes were oil-heated, industry consumed increasing quantities of oil.

382 433 439 The volume of total crude refined in Hungary was 117,000 tons in 1902, and reached 396,000 tons in 1913, the peak pre-World War I year. Of the total, 90 percent came from Galicia, about 7 percent was imported from Romania, while the remaining 3 percent came from scattered domestic production and other sources.

[728] After World War I Galicia went to Poland. The oil fields there were partly exhausted and partly destroyed and production decreased considerably. At first imports from the Soviet Union replaced the Galician crude to some extent. Specialized products, especially lubricating oils, were imported from Germany and from the United States. Beginning in 1914 Hungary had refined lubricating oils from the Egbell (Gbely) crude but this field went to Czechoslovakia after the war.

In 1926 an agreement was reached with Romania concerning the import of "synthetic crude," now a gasoline-crude mixture, and from then on until 1940 that country became practically the sole source of Hungarian imports. Total Hungarian imports in 1926 amounted to 61,600 tons of synthetic crude and 73,600 tons of refined products, or a total of 135,200 tons. This was a sharp increase over the previous year and must be contrasted with total imports of only 17,200 tons in 1920 and an average of 67,000 tons for the years 1921-1925. Imports continued to increase and reached their peak in 1936 with 238,300 tons of Romanian synthetic crude and 21,800 tons of refined products from Romania and Germany, a total of 260,100 tons or almost twice the 1926 figure.

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

[135] 431 315

The following year[1] oil was discovered in Transdanubia and by 1941 Hungary had completed the transition from an oil importing to an oil exporting nation. The relevant data for these important transition years are found in Table VIII.[2]

There are no precise export-import data available for the chaotic years 1944 and 1945, when Hungary was a battlefield and the oil fields were under first German then Red Army supervision. It is known, however, that crude production in 1944 amounted to 810,000 tons of which some 500,000 tons were exported to Germany or were used up by the German Army in Hungary. Similarly, of the 1945 production of 656,000 tons the Germans took about 100,000 tons while the Red Army seized over 400,000 tons.

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Oil exports played a major part in Hungary's reviving postwar foreign trade. In contrast to the war years, when the bulk of the Hungarian oil was shipped westward to Germany, the postwar exports went east to the Soviet Union, with smaller quantities being taken by Yugoslavia, Czechoslovakia, and Poland. Exports amounted to 340,000 tons in 1946 and to 251,500 tons in 1947. Of these 135,000 tons and 25,000 tons respectively were on the war reparations account.

439 382

Beginning in September 1948 statistical secrecy was imposed on export-import figures by the communist government. Despite the complete lack of any official information it has been possible to estimate the "exportable surplus" of oil for the five years following 1947. This method involves the determination of the domestic crude production and the calculation of the domestic consumption from such secondary information as the number of trucks and cars, the level of industrial activity, and other contributing factors. By subtracting the domestic consumption from the domestic production we obtain the "exportable surplus" quantities. It must be remembered, of course, that these data, however carefully arrived at by calculations and estimations, are approximations and are used here only due to the lack of more accurate information.

1 [i.e., in 1937 - Analyst][18]

2 [See page 89 - Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

[428] 382 Domestic consumption in 1946 was the same as prewar—260,000 tons. It remained relatively stationary at 265,000 tons during the Three-Year Plan years of 1947, [433] 439 1948, and 1949 and then began to rise again. Domestic consumption was calculated as 310,000 tons in 1950, 410,000 tons in 1951, and 460,000 tons in 1952. Subtracting these figures from the carefully established production figures of 475,000 tons for 1948; 490,000 tons for 1949; 490,000 tons for 1950; 475,000 tons for 1951; and 560,000 tons in 1952 we obtain the following exportable surplus figures: 210,000 tons in 1948; 225,000 tons in 1949; 180,000 tons in 1950; 65,000 tons in 1951; and 100,000 tons in 1952. While these figures must be treated with caution, they represent the only realistic appraisal of the export-import situation because of the absence of official data and because of the peculiar position of Hungary as a less and less distinguishable part of the over-all Soviet economic system. It must be kept in mind that the Soviet Union receives a part of the oil as its share of the Hungarian-Soviet Oil Company's production. The Soviet-owned Hungarian oil, if and when exported, is not listed under Hungarian exports by the Hungarian communist authorities. To confuse matters more, since 1949 Hungarian refineries have been processing ever increasing quantities of Austrian crude; the resulting refined products being shipped to the Soviet forces in Germany and to Czechoslovakia, Poland and western Romania. It is very doubtful whether these transactions are still being officially treated as Hungarian imports of crude and as Hungarian exports of refined products. They are more likely simple transactions of the Soviet Oil Combinat in Austria (the crude producer), the Soviet-controlled and partly Soviet-owned Maszovol refineries in Hungary (the refining agent) and the Red Army in East Germany and different Polish, Czechoslovak, and Romanian industrial trust and distribution agencies (the consumers). One can really no longer refer to Hungarian exports and imports.

In brief, Hungary was an oil-importing nation until the eve of World War II, when the Zala fields were discovered in 1937, and further discoveries made in 1940 and 1941. As domestic production increased imports fell off and in 1941 Hungary became an exporting nation.

THE OIL INDUSTRY OF THE HUNGARIAN ECONOMY

315
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Compared with the world's leading producers, exporters, and importers Hungary's importance is very small indeed. As an example, her crude production during the 1940's fluctuated between one third of 1 percent and one half of 1 percent of United States production, being comparable to the output of the states of Ohio or New York. Similarly, postwar Hungarian exports are only an insignificant fraction of those of Venezuela or of the Middle East.

In oil-poor Europe, on the other hand, Hungary's position is quite different. Of all European countries Hungary stands in third place behind Romania and Austria as an oil exporter and is the fifth largest absolute producer of crude, being preceded only by Romania, Austria, West Germany, and the Netherlands. The mere fact that Hungary is self-sufficient in oil is of signal importance to the Soviet economic system. The Hungarian refining industry and even the small Hungarian surpluses of oil are important factors in the oil supply of the western reaches of the Soviet empire.

RECENT DEVELOPMENTS

Lake Balaton region (perhaps identical with Nagylengyel); Kiscsehi and Vétyem (extensions of the Lispe field); along the Mátra Mountains, at Mezőtúr, and Mezőkeresztes. While no reliable or comprehensive production data have been made available for these new discoveries, the estimated 1947-1952 production of all fields is given in Table IV.

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The million-barrel jump from 1950 to 1951 shown in the first World Oil version is highly improbable and was sharply reduced a year later. It could be explained only by the development of a large new field. As it took two years to bring Lispe production to one million barrels, it would appear unlikely that a hypothetical new field could achieve such production in one year, particularly considering the shortage of drilling equipment, and in view of the fact that much of the available equipment was employed drilling new wells in the Lispe and Lovászi fields.

It might be argued, in view of the United Nations figure for 1950 that a million-barrel jump was achieved in two years. It must be emphasized, however, that the U.N. estimates are based on data from official government, namely communist, sources, which are hardly to be relied upon, and conflict with 1950 production figures from all other sources.

Even a 500,000-barrel increase in Hungary's oil production in a year's time would require hard work and exceptionally good luck. There are wells with prolific production (gushers) in several regions of the world, but such wells are very improbable in Hungary considering the geological conditions. If an oil field of the type at Lispe or Lovászi were discovered, and twelve producers were drilled within one year, production in that year would increase by 300,000 barrels, and in the following year, assuming twelve additional producers, by another 600,000 barrels. Meanwhile, production would continue its natural decline in the older fields.

The 1949-1951 production estimates of Table IV,† may be too conservative; it is unlikely, however, that production

†[See page 86 -- Analyst]

RECENT DEVELOPMENTS

315
● 433 exceeded 3,800,000 barrels in any of these years, and any 1951 production figures over 4,000,000 barrels should be viewed with grave suspicion.

The figures for 1952 have to be considered as rough estimates. We know definitely that productivity in the old Zala fields has long passed its peak and is now declining. This decline, which normally would be more pronounced, was slowed down, at least temporarily, by costly and at time desperate measures taken by the communist authorities (see appendix).

The production of new discoveries remains unknown due to communist secrecy and because available reports are so vague, unreliable, and contradictory that no clear picture emerges from them. Allowance must be made, however, for an approximately sixfold increase in drilling over 1947 and for a comparable increase in exploration.

The differing estimates should be examined for the year. The low estimates for 1952 assume declines in the production of the old fields from an estimated 3,358,000 barrels in 1951 to 2,660,000 barrels; and only a moderate increase in the production of newly developed areas from 215,000 barrels in 1951 to 550,000 barrels a year later. The low total is 3,210,000 barrels.

The high estimates assume little or no decline at the old fields (stagnation), namely 3,350,000 barrels in 1952; the development of one new field worthy of that name (possibly Nagylengyel-Gellénháza with a production of 1,000,000 barrels); and some scattered production elsewhere (200,000 barrels in Transdanubia and 250,000 in eastern Hungary). The high total for 1952 is 4,800,000 barrels.

The low figure is too low and the high figure is probably too high. They are valuable only as the higher and lower limits of the range where the total Hungarian oil production must have been in 1952. The most probable estimate is about 4,250,000 barrels which represents a moderate increase of about 15 percent over the previous

year. In this case the assumption is that the decline in the production of the old fields was more than made up by the development of new ones. 315 433 ●

The general picture given above is strongly supported by the private reports referred to throughout the text and by estimates arrived at by experts in the Western world. It is also corroborated by a few available official Hungarian government pronouncements and publications. As a summary of the preceding discussion and of the information embodied in Tables I-IV, the following conclusions can be made:

We know that the 1947 production was 570,000 tons (Tables I-IV).

The general consensus is that production fell off sharply in 1948, estimates for that year ranging between 471,000 and 500,000 tons (Table II). The lowest of these estimates should be preferred because it represents the total of a field-by-field analysis of production (Table IV), which was based on reliable inside information.

We have no direct production reports for the years beginning in 1949. Estimates and figures calculated from officially released percentage data for that year range from 457,000 to 518,000 tons. Therefore, it is safe to assume that production rose only very slightly to about 490,000 tons. The official plan report claimed an increase of 3.6 percent over the previous year. It is obvious that the 660,000-ton goal called for in the speeded-up Three-Year Plan was far from being fulfilled, and it was reported that even the reduced, but undisclosed, 1949 yearly target was not reached.[1] Official exhortations and condemnations, purges of personnel, frequent references to the "sabotage" and "wrecking activities" of the formerly American-owned and managed MAORT are further indications of the crisis in the oil industry.

The range of the 1950 estimates is between 455,000 and 550,000 tons with the higher figures being decidedly too high. The best available estimate remains 490,000 tons, plus or minus 5 percent, indicating no appreciable

[1] [cf. cat. 116, pp. 81-82, 85-86 -- Analyst]

[2] [cf. cat. 116, p. 73 for source -- Analyst]

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

315
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change in oil production figures from the previous year.

Estimates for 1951 range from 450,000 to 500,000 tons, if we disregard one source giving the preliminary figure of 592,000 that was revised to 460,000 tons. (See Table II, World Oil source.) The safest figure for 1951 is 475,000 tons, indicating a slight reduction from 1950. Available official and private statements support the above theory, and the 1951 production could have been even lower.[10] The exact determination of the 1951 production is important because this year is the basis of actual output figures given for 1952 and also for the 1953 plans.

The year 1952 appears to have been a turning point in crude production. Private reports and official statements definitely point to the development of substantial new producing areas. On the basis of these reports the production of new fields in 1952 was estimated by the Mid-European Studies Center staff (Table IV) as being somewhere between 74,000 tons (550,000 barrels) and 190,000 tons (1,450,000 barrels). The total 1952 production was estimated as being somewhere between 422,000 tons (3,210,000 barrels) and 632,000 tons (4,800,000 barrels) with 560,000 tons (4,250,000 barrels) being the most likely figure.

Official publications claimed that six fields have been put into operation since 1948.[11] Even though this claim is probably a gross exaggeration, it is nevertheless significant. It was also reported that considerably more oil was produced in the third quarter of 1952 than called for by the plan.[12] On 29 November 1952, Ernö Gerö in a speech dealing with Hungary's economic progress revealed that in the first ten months of 1952, 17.6 percent more crude oil was extracted than in the same period of 1951, while the oil industry as a whole was 29.4 percent ahead of the base period.[13] A fortnight later in a speech to parliament, Mátyás Rákosi, Hungary's communist satrap, declared that in the first eleven months of 1952 crude production exceeded that of the same period of 1951 by 18.4 percent.[14] Rákosi added that this was still slightly below the target, but only because transportation bottlenecks

[cf. cat. 116, p. 73 for source--Analyst]
[for footnote, cf. cat. 116, pp. 68 73-74--Analyst]
[for footnote, cf. cat. 116, p. 74--Analyst]

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

held operations at the new fields below normal capacity. 315 433

Taking the 1951 figure of 475,000 tons, taking Rákosi's statement at face value, and applying it to the whole year rather than only to the first eleven months, a 1952 production figure of 562,000 tons is indicated. In the light of the above discussion this figure is well within the realm of possibility, and with some caution, it can be accepted as correct.

Planned Production

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The Hungarian Three-Year Plan announced in 1947 called for the production of 540,000 tons (4,104,000 barrels) of oil in 1947/48; 600,000 tons (4,560,000 barrels) in 1948/49; and 660,000 tons (5,016,000 barrels) in 1949/50. In 1948 the plan was speeded up to reach the 1949/50 target by the end of 1949. These targets were not reached and only 490,000 tons (3,724,000 barrels) were produced in 1949.

Late in 1949 the Five-Year Plan for 1950-1955 was announced. Its oil goals were not made public. However, information leaking from Hungary indicated that the 1952 target was 500,000 tons (3,780,000 barrels) and a 1953 target of 575,000 tons (4,340,000 barrels) was also given. These are much more modest than the Three-Year Plan goals. Either they are incorrect or the planners have lowered their sights.

It was officially announced on 15 December 1952 that crude oil production in 1953 is to be 25 percent over 1952, which in turn ran 18.4 percent over 1951 during the first eleven months. Therefore, depending on whether the 1951 production was 450,000 tons, the lowest estimate, or 500,000 tons, the highest estimate, the 1952 production must have been between 533,000 and 592,000 tons and the 1953 target is 25 percent over this, namely somewhere between 666,000 and 740,000 tons. In this study we accepted 475,000 tons as the 1951 figure which gives 562,400 tons for 1952 and a target of 693,000 tons for 1953. It is apparent that the production targets have been revised both upward and downward several times.

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

prospecting for further oil deposits."

• 433 12. Report of the Hungarian News and Information Service (London), October, 1952, p. 2. "Considerable quantities of the following articles were produced above the plan during the third Quarter...machine oil, crude oil...." Significantly, this statement followed a list giving percentage increases in the third quarter, of 1952 as compared to the third quarter of 1951.

13. Szabad Nép, 30 November 1952, p. 1.

14. Szabad Nép, 16 December 1952, p. 2.

15. Simon Papp, "Nyersolajkutatás és termelés Magyarországon," Magyar Kémikusok Lapja (Budapest), I (25 November 1946), 89-90.

12: Free Europe Committee U-4 (no date) 1964 EC1 Hungary EC1

382 solvent refinery plant was under reconstruction in that year. Peak capacity of 1,350,000 barrels was reached in 1944. Capacity fell to 1,100,000 barrels thereafter but has probably recovered since. There are storage facilities for 23,300 barrels of crude and 126,000 barrels of finished products.

Magyar Olajművek R.T. The government constructed another modern refinery at Szőny, near Almásfüzitő, in 1943. It was originally planned to have a yearly capacity of 5,500,000 barrels—in which case it would have been able to refine all crude produced in Hungary. Later these plans were considerably reduced and it was completed with a capacity of 2,250,000 barrels on 14 June 1944. That same day it was damaged by an air raid. In 1947 only the single-flash topping unit was functioning. The vacuum tower, solvent extraction plant, and other units (all were designed by a Hungarian chemist, Dr. Kell, who perfected a process for simultaneously removing asphalt and paraffin from oil) had been destroyed. It could therefore function only as a primer distillation plant with a 1,800,000 barrel capacity. There was storage for 32,000 barrels crude and 126,000 barrels refined. In 1946 this refinery became the property of Maszovol, the Hungarian-Soviet Oil Company.

During the war Hungary also had the use of five small refineries in territories that were temporarily recovered but which were lost again with the territories in which they were located at the end of World War II. These refineries and the number of barrels of oil they could refine yearly were: in southern Slovakia, one at Lengenye-Mihályi, 90,000; in Ruthenia, one at Mukačevo, 200,000, and another at Čop, 50,000; and in Transylvania, one at Dej, 190,000, and a second at Targu-Mures, 180,000.

382 433 As can be seen from the above list the total Hungarian refining capacity declined from 1,300,000 tons (over 10,000,000 barrels) annually in mid-1944 to less than 100,000 tons (760,000 barrels) one year later. While the refining capacity in 1944 greatly exceeded domestic production of crude it fell to about one-seventh of it in 1945.

THE REFINING INDUSTRY

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By 1947 capacity recovered to approximately 830,000 tons (6,300,000 barrels) and it was somewhat optimistically given as 100,000 tons monthly or 1,200,000 tons (9,100,000 barrels) annually in early 1948.

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The relatively rapidly restored refining capacity, however, remained largely unused because of Hungary's inability to import Romanian crude, which went directly to the Soviet Union. Continued enforced crude exports from a diminishing domestic production further reduced the crude supplies available to the refineries. Consequently the refineries operated at only 30 to 50 percent of rated capacity in the 1946-1948 period.

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If we consider that scarce building material and skilled manpower were devoted to reconstruction of the refineries, which then were left largely unused, it becomes apparent that rather gross misplanning took place in this sector of the Hungarian economy. It is evident that the postwar planners greatly overestimated the prospective future domestic crude production and expected large additional crude imports, instead of which their Soviet economic superiors forced them to export crude.

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Despite its relatively large capacity, the Hungarian refining industry was technically outdated even before the war. The largest, newest, and most modern plants, mainly built within the framework of the Five-Year Plan of 1938, were the ones most thoroughly destroyed during the war. These plants and the more complicated parts of the older plants were the ones last rebuilt or not rebuilt at all. A close study of the refinery survey given above will reveal that as of the end of 1947 the Hungarian refining industry was still quite inferior from a technical point of view. With the exception of a small cracking unit at the Pét plant none of the installations were able to change the molecular composition of the hydrocarbons they processed. Nor were they able to produce the great variety of high grade petroleum products now manufactured in the United States or Western Europe. In fact, they were limited to simple fractional distillation and little else.

TABLE I

Oil Production, 1937-1947

382
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Year	Transdanubia (MAORT)	Eastern Hungary (Hungarian Govt.)	Total Hungary
	(in metric tons)		
1937	1,866	1,029	2,895
1938	37,254	5,559	42,813
1939	141,849	1,944	143,791
1940	249,590	827	250,417
1941	421,660	478	422,138
1942	665,201	430	665,631
1943	837,711	357	838,068
1944	809,970	192	810,162
1945	655,568	209	655,777
1946	674,539	233	674,772
1947	569,433	200	569,633

Source: Simon Papp, "Nyersolaj és földgáz Magyarországon," Magyar Technika (Budapest), I, No. 6 (October, 1946), 206.

Note: The following sources are in general agreement with Papp: Mihály Freund, "A Magyar ásványolajipar az elmult száz év alatt," Magyar Technika, III, No. 3 (1948), 90. Hungarian Statistical Bureau release of February 1949, which is coincident with data published in the Magyar Statisztikai Zsebkönyv, 1947, p. 103; and 1948, p. 135, for the years 1938, 1945, and 1946. The Hungarian Statistical Bureau figures differ only for 1946 (13,611 tons higher) and 1947 (211 tons higher).

382
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12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

TABLE II

Comparative Data on Oil Production, 1947-1952

Source	1947	1948	1949	1950	1951	1952
	(in thousand metric tons, figures rounded)					
World Oil	570	480	499	455	592[a]	
World Oil (revised figures)	570	484	499	487	460	443[a]
U.S. Bureau of Mines		480	499			
United Nations I	570	484	503	530	500	
United Nations II		480	510	550		
Hungarian Bulletin		500	518			
MESC[b] associate	570.86	471	457	455	470	560
Private Source I			500	500		
Private Source II					485	
Rosu				461	450	
Teleki			502.3	461	450	
Wszelaki				492		
Recommended by MESC	570	475	490	490	475	560

[a] World Oil preliminary figures

[b] Mid-European Studies Center

Note: Conversions have been made at the rate of 7.6 barrels to one metric ton; corresponding to 1947 Hungarian average of 7.6029 barrels to one metric ton.

TABLE II, Note (ont.):

The sources referred to may have used ratios of 7.5 7.66, or 7.7 barrels to the metric ton leading to minor discrepancies. No current information is available as to the specific gravity of Hungarian oil; this may lead to additional discrepancies, but the margin of error is negligible and does not exceed 1 percent. (Last available ratios, 1946-47: 7.5436 barrels per ton at Lispe; 7.7140 barrels per ton at Lovászi; and 7.2173 barrels per ton at Hahót.)

382
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Sources:

World Oil, CXXXV, No. 2 (15 July 1952), 64: 1947 - 4,330,000 bbls.; 1948 - 3,647,000 bbls.; 1949 - 3,791,000 bbls.; 1950 - 3,460,000 bbls.; 1951 - 4,500,000 bbls. (preliminary figures).

World Oil, CXXXVI, No. 3 (15 February 1953), 276. Revised figures: 1947 - 4,330,000 bbls.; 1948 - 3,677,000 bbls.; 1949 - 3,791,000 bbls.; 1950 - 3,700,000 bbls.; 1951 - 3,500,000 bbls.; 1952 - 3,367,000 bbls. (preliminary figures).

Mineral Yearbook, 1949 (Washington, D.C.: United States Bureau of Mines, 1950), p. 1615.

United Nations I: Statistical Yearbook 1952 (New York, 1952); estimates for 1948-1951 by Petroleum Press Service, London.

United Nations II: Research and Planning Division, Economic Commission for Europe, Economic Survey of Europe in 1950 (Geneva, 1951), p. 172.

Hungarian Bulletin (Budapest), No. 69 (11 March 1950), p. 3, states that the 1949 crude oil production was 1168.9 percent of the 1938 output; the 1949 production was 103.6 percent of that of 1948.

Private source I.

382
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TABLE II, Sources (cont.):

Private source II, as quoted in Report No. VII (51), 24 October 1951, Hungarian Radio and Information Center, National Committee for a Free Europe, New York, states: "In the first half of 1951 Hungary produced crude at the rate of 10,100 barrels daily reaching only 88 percent of the plan. Plans call for 1,500 barrels more daily by 1952." Yearly rate based on the first half year's production, which is probably a little low because of better performance in the second half.

George C. Rosu, "Iron Curtain Report," Oil and Gas Journal, 2 June and 9 June 1952.

Géza Teleki, "The Mineral Raw Materials of Hungary," manuscript, Table: Petroleum (New York: Mid-European Studies Center of the National Committee for a Free Europe).

Jan H. Wszelaki, "Petroleum for Power in Red Europe," World Oil, CXXXIV, No. 6 (May, 1952), 254. "Accredited American sources with access to much special information" state that Hungary's oil production was 3,739,000 barrels in 1950.

TABLE III

Planned Oil Production, 1947-1953

382
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Source	1947/48	1948/49	1949/50	1951	1952	1953
	(in thousand metric tons)					
I	540	600	660			
II				551	557	
III					500	575
IV						703

Sources: I. 1947/48-L.D. Schweng, Economic Planning in Hungary since 1938. New York: Mid-European Studies Center of the National Committee for a Free Europe, 1951), p. 24.
1948/49: MESC staff.
1949/50: Schweng, op. cit.; United Nations, Research and Planning Division, Economic Commission for Europe, A Survey of the Economic Situation and Prospects of Europe (Geneva, 1948), p. 132.

II. Private source as quoted in Report No. VII (51), 24 October 1951. Hungarian Radio Information Center, National Committee for a Free Europe, New York.

III. Private source.

IV. 1953: MESC estimate, based on statement of Mátyás Rákosi in Szabad Nép, 16 December 1952, p. 2 (see above pp. 68-69).

315
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12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

TABLE IV

Oil Production by Fields, 1947-1952

Field	1947	1948	1949	1950	1951	1952
	(in thousand barrels)					
Old Fields						
Lispe	1,235.55	1,097.00	1.050	1,100	1,050	700-1,000
Lovászi	2,625.15	2,145.59	2,123	2,000	2,000	1,700-2,000
Újfalu (reactivated)				5	7	10-50
Hahót	468 66	337.00	300	350	300	250-300
Bükkszék	1.50	1.30[a]	1.3		1.3	1-2
New Discoveries						
Transdanubia					200[b]	500-1,200
East of the Danube					15[b]	50-250
Total	4,330.86	3,580.89	3,474	3,456	3,573	3,210-4,800

[a]Estimate

[b]Second half of year; previous production was negligible.

Sources: 1947-1948 data compiled by MESC associate from detailed production reports; 1949-1951 data estimated by authoritative MESC consultant; 1952 data estimated by MESC staff.

382
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TABLE V

Total Annual Capacity of Crude Oil Refineries and Annual Capacity of Individual Refineries

A. Total Annual Capacity

Year	Million Barrels
1918	3.0
1920	1.5[a]
1940/41	3.2[b]
Spring 1944	10.0[c]
1946/47	6.36
1948	9.1
1949	12.2
1952	20.0

[a]Decrease was due to loss of territory
[b]Including 0.71 in recovered areas
[c]Including 0.71 in recovered areas

B. Annual Capacity of Individual Refineries

Refinery	1940/41	Spring 1944	1946/47
	(in thousand barrels)		
Vacuum Oil Co.	600	2,000	1,100
Shell Kőolaj R.T.	1,000	1,800	1,350
Magyar Olaj és V.R.T.	350	700	220
Nyirbogdányi Petroleumgyár R.T.	180	540	540
Fanto Egy. Ásványolajgyárak R.T.	270	540	100
Szőregi Petroleumgyár R.T.	90	150	150
Péti Nitrogénmüvek R.T.		1,350	1,100
Magyar Olajmüvek (Szőny)		2,250	1,800
3 in Czechoslovak area	340	340	a
2 in Romanian area	370	370	a

[a]Area lost by Hungary after World War II.

Sources: A. Figures estimated by MESC staff.
B. Figures compiled by MESC staff from authoritative private sources.

I.

FROM TRIANON TO SOCIAL RECONSTRUCTION.

728 After the first world war no other country was reduced to such economic and financial straits as Hungary. She not only lost the greater and more valuable part of her territory, but a considerable proportion of her population as well. Furthermore, her economic unity was disorganized and her natural resources passed into foreign hands. The social and economic structure of the country was basically changed almost overnight, and that fact in itself forced the Government to battle with problems which were practically unknown in other countries. At the same time the social claims to a better standard of living by the great masses were on the increase in Hungary too. So, all told, the maintenance and the preservation of social equilibrium and that of undisturbed production demanded far more zealous efforts from her statesmen than in any other country in Europe.

728 Formerly Hungary was an agricultural country form-
433 ing a well-balanced economic unit on the way to industrialization. The changes brought about by the Treaty of Trianon meant a reversion in this respect to more primi-
000 tive conditions. This trend was aggravated by the fact

185 When we give a short account of the record of Hungarian social policy, it must be pointed out that the same consistent social spirit prompted the passing of new laws, reforms and other regulations, and the establishment of new institutions. It was through no fault of the Government that the development was not continuous, and temporary interruptions impeded its progress. These were caused by the above-mentioned political and social events. In the beginning, when the Hungarian state had to be reorganized out of almost nothing, the execution of the Government's plans was hindered by poverty, stagnation [425] of production and by inflation. In spite of all these obstacles the Government put through the Land Reform Bill of 1920. After consolidating the affairs of the state, the second 185 stage of social progress arrived, which lasted until 1931. 178 During this period the rate of progress was significant. This stage was marked by rapid economic growth and industrialization. Hungary was then able to eliminate most of the differences which existed between her social legislation and that of the more advanced European nations. [648] The third stage of development could be entered upon only after the second international control of our finances came to an end in 1938. This stage was one of innovations.

185 It was a salient feature of Hungarian social policy 433 that it was always co-ordinated with the actual productive 745 capacity of the country. Laws which could not be carried out were never enacted. The social policy of the state avoided bringing the country to the brink of bankruptcy, as for instance was the case in Czecho-Slovakia, where there was no harmony between the social and economic programme of the country. At the time of that Republic's dissolution, the consequence of this lack of harmony was

the virtual collapse of its indisputably advanced social institutions, especially its social insurance system. The laws enacted in Hungary had a sound economic basis.

In introducing this subject it was deemed opportune to stress these points because hostile propaganda systematically endeavours to convince public opinion in other countries that Hungary is a backward, feudalistic state, led by anti-social elements. Our answer to these charges is the simple recording of facts.

Regarding the social achievements of the pre-war years, we would only refer now to the fact that in the early days of industrial capitalism, Hungary was the fifth among the European nations to regulate child labour, as far back as 1840. She not only anticipated most of the other countries in this respect, but she secured wider protection for her child workers than even England did. It was a distinctive feature of pre-war social legislation that the system of compulsory sick-benefit insurance for workmen was established in Hungary in 1891, not many years after similar legislation in Germany and in Austria. At the time of the well-known Bismarckian social policy, important legislation along the same lines was instituted in Hungary as well.

Hungary, which was designated as a backward and anti-social nation, was the fourth country in Europe to inaugurate institutional family allowances. Hungary, stigmatized as a feudalistic state, distributed more than one million acres of arable land to her small farmers through land reforms after the war. Up to 1942 almost two million acres had been allocated for this purpose. At the time of the first land reform bill 260,000 families received lots for building homes. A second bill, recently instituted, will set

countries reveals a marked difference in one respect. The Hungarian social policy did not embrace the system of unemployment relief, as this was considered to lower the morale of the working class, and furthermore, Hungary was never in the position financially to spend millions on this type of relief. The Government endeavoured to find employment for the needy rather than hand out money to the unemployed. This policy was justified by results shown in the growth of industrial and agricultural production, and of export trade. The Government is continuing along these lines by promoting the industrialization of the country, by decentralizing industrial concerns, especially new ones, and by trying to improve the quality and the quantity of agricultural production through subsidies amounting to 1000 million pengős during the past year and a half.

Special emergency measures of a temporary nature are passed to meet each contingency. Such are the war-time regulations which promote the interests of the enlisted men and of national defence by effective measures, and increased governmental support. Assistance for agriculture at the expense of the other branches of production at the time of the last economic depression was a similar measure, proving its value in reducing the burdens of insolvent farmers through the enactment of various laws. Taking everything into consideration, the general economic policy has not been formulated adventitiously to meet urgent needs and emergencies, but has consciously and consistently striven to carry out social ideals.

The following chapters will serve to give a brief summary of the results achieved by social-minded Hungary during the past two decades, sometimes under most adverse conditions.

exemption and reduced freight rates. Between 1881 and 1914, 1333 such factories received subsidies, and by 1935 all these factories with the exception of a few were in ruins under Czech rule . . .

The complete ruination of industry was not left to chance and was not caused by the depression, but it was a fixed programme of the Czech Governments. The process was started by the stringent control of commercial and savings banks which was extended later to co-operatives and commercial houses.

It was continued by taxation measures and was marked by distinct favouritism in allotting state orders which consistently neglected Slovakian industry. How taxation was used to achieve this end becomes manifest when we take into consideration that 19% of the state receipts came from Slovakia and only 9% of the state expenditure was spent there.

During the first few years following the first world war 94.5% of the state investments was spent in Bohemia and Moravia. Out of the 3.5 milliard Czech crowns invested in 1931 by the state social insurance system, only 236 million Czech crowns were invested in Slovakia. Half of the expenses of the road building programme of Czecho-Slovakia was born by Slovakia and Sub-Carpathia, but their share in the programme was only 12%. The levying of taxes was governed by certain considerations in the historical Czech state and by different ones in Slovakia and Sub-Carpathia; in the latter the tax burdens were far heavier. The railway freight rates were always higher in Slovakia and Sub-Carpathia than in the rest of the country. This fact in itself would have sufficed for the complete ruination of Slovakian industry. On the average the indus-

20: Gyorgy S-4 (no date)1947 EC1 Hungary EC1

selected from all major labor unions is headed by an ardent Communist, Kossa, organizer of the Budapest streetcar workers union.

An essential institution in Hungarian industry is the factory committee, elected by the workers to represent their interests in dealing with the management, or with State officials now serving as replacements for an almost extinct managerial class. These small factory committees are particularly sensitive to party ideology and are permeated by Communist propaganda. Through them the workers are brought into constant contact with political authorities of the State, and their private life is closely watched. At their trade union meetings they are given lectures on foreign and domestic politics devoted frequently to violent hate propaganda against Britain and the United States.[43] Trade unions and factory committees have thus become important tools in the hands of the country's dominant political-economic bloc.

The process of industrial recovery and the strengthening of a new laboring class have suffered considerably by the recent financial disaster which culminated in the inflation of 1946. The country's economic foundations were first weakened by the wave of German looting and seizures of valuable assets and capital goods, estimated at approximately ten billion dollars. The economic deathblow was then delivered by the prompt acquisitiveness with which Soviet Russia reduced occupied Hungary to the role of an economic colony. The threatening upward spiral of prices, wages and nominal money values finally drove out the Pengõ, discredited by a long and unchecked period of inflation. The economic situation improved substantially after the stabilization of August 1946 when an old Austro-Hungarian monetary unit, the *forint* (florin), had been established as the fixed national currency. By the end of 1946 industrial capacity was gradually restored to about sixty percent of the pre-war potential, although Hungary continued to pay an exceedingly heavy reparation bill, both in industrial equipment and in current manufacturing production.[44]

Reparations today include nearly all of the country's capital goods

43 Cf. "Workers and Industry, Danubian Outlook," *The Economist*, Jan. 25, 1947, p. 134.

44 N. Káldor estimates that at least one-fourth of the total current production goes to the U.S.S.R. The reparations burden is further enhanced by a strict interpretation of the Potsdam agreement according to which the Russians continue to compute the reparations bill in "dollars of 1938 purchasing power." Nevertheless, Professor Káldor reaches the strange conclusion that "the picture of Soviet Russia as the ruthless economic exploiter of Hungary is far too one-sided." Cf. "The Danubian States," *The Times*, London, Nov. 19, 1946.